87-1 25

Supreme Court, U.S.
FILED
JUL 20 1987
JOSEPH F. SPANIOL, JR.
CLERK

No.

In the Supreme Court

OF THE

United States

OCTOBER TERM, 1987

NEC ELECTRONICS INC.,
Petitioner,

v.

CAL CIRCUIT ABCO, INC., et al.,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

ROBERT B. PRINGLE
Counsel of Record
STEVEN L. HOCK
ROBERT A. WEIKERT
THELEN, MARRIN, JOHNSON & BRIDGES
Two Embarcadero Center
San Francisco, CA 94111
Telephone: (415) 392-6320
Counsel for Petitioner

BOWNE OF SAN FRANCISCO, INC. • 190 NINTH ST. • S.F., CA 94103 • (415) 864-2300

100 pp

QUESTIONS PRESENTED

1. Where the district court has made an undisturbed finding of likelihood of consumer confusion based on, *inter alia*, substantial evidence of actual confusion, is a United States trademark owner entitled to relief from the sale of gray market goods under Sections 32 and 43 of the Lanham Act, 15 U.S.C sections 1114 and 1125?

2. If the answer to the above question is in the affirmative, should Lanham Act relief be denied solely because the United States markowner is affiliated with a foreign manufacturer of the goods imported by the gray marketeer?

DESIGNATION OF CORPORATE RELATIONSHIPS

Pursuant to Supreme Court Rule 28.1, petitioner, NEC Electronics Inc., identifies its parent companies, subsidiaries and affiliates as follows:

Parent Company:

NEC Corporation

Affiliated Companies:

NEC America, Inc.
NEC Home Electronics, Inc.
NEC Information Systems, Inc.
NEC Systems Laboratory, Inc.
NEC Industries, Inc.
NEC Canada, Inc.
NEC Argentina S.A.
NEC de Mexico S.A. de C.V.
NEC de Venezuela, C.A.
NEC do Brasil S.A.
PECOM-NEC S.A.
PHILCO Argentina S.A.
NEC Australia Pty. Ltd.
NEC Home Electronics Australia Pty. Ltd.
NEC Information Systems Australia Pty. Ltd.
New Zealand Telecommunications Systems Support Centre Limited
NEC Business Systems (HK) Limited
NEC Business Systems (Singapore) Ltd.
NEC Computers Singapore Pte. Ltd.
NEC Computers Taiwan Ltd.
NEC Engineering (Thailand) Co., Ltd.
NEC Hong Kong Ltd.
NEC Malaysia Sdn. Berhad
NEC Singapore Pte. Ltd.
PERNAS NEC (KEDAH) Sdn. Berhad
PERNAS NEC Telecommunications Sdn. Berhad
Taiwan Telecommunications Industry Co., Ltd.
NEC Saudi Arabia, Ltd.
Iran Telecommunications Industries P.J.S.C.
NEC Nigeria Limited
NEC Business Systems (Deutschland) GmbH
NEC Business Systems (Italiana) s.r.l.

NEC Business Systems (Europe) Ltd.
NEC Electronics (Europe) Ltd.
NEC Electronics (Germany) GmbH
NEC Electronics Italiana s.r.l.
NEC Electronics (France) S.A.
NEC Electronics (UK) Limited
NEC Home Electronics (Europe) GmbH
NEC Ireland Limited
NEC Semiconductors (UK) Limited

PARTIES TO THE PROCEEDING

The petitioner is NEC Electronics Inc. The respondents are Cal Circuit ABCO, Inc., Alex Sandel, Jason Barzilay, and Beny Alagem.

TABLE OF CONTENTS

	Page
Questions Presented	i
Designation of Corporate Relationships	ii
Table of Contents	iv
Table of Authorities	vi
Opinions Below	1
Jurisdiction	1
Statutes and Regulations Involved	1
Statement of the Case	1
Reasons for Granting the Petition	11
I	
The Fact That U.S. Markowners Are Looking to Both the Lanham Act and the Tariff Act of 1930 for Relief From Gray Marketeers, Coupled with the Fact that this Court Now Has Before it the *COPIAT* Case which Addresses the Issue of Whether Affiliated U.S. Markowners are Entitled to Relief from Gray Marketeering Under the Tariff Act, Requires that this Court Grant Review of this Case to Fully Resolve the Question of What Federal Statutory Relief, if Any, Affiliated U.S. Markowners Have Against Gray Marketeers	11
II	
The Question of Whether Affiliated U.S. Markowners are Entitled to Federal Statutory Relief from Gray Marketeering is of Immediate and Substantial Commercial Importance Throughout the United States and Abroad	13
III	
The Court of Appeals' Holding That The Lanham Act Is Designed to Remedy Only Confusion as to the "Origin" or "Make" of a Product Directly Conflicts with The Lanham Act Itself, Prior Ninth Circuit Opinions, and Other Court of Appeals Decisions	14
IV	
The Holding of the Court of Appeals is Premised on Misinterpretations and Misapplications of This Court's Decisions in *Katzel* and Other Cases Concerning the Applicability of Federal Trademark Law to the Resale of Genuine Goods	18

TABLE OF CONTENTS

Page

V

The Court of Appeals' Holding That U.S. Markowners Affiliated with Foreign Manufacturers Are *Per Se* Barred From Lanham Act Relief Against Gray Marketeering Directly Conflicts with the Recent Second Circuit Opinion in *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.* 27

Conclusion 30

APPENDIX A

United States Court of Appeals for the Ninth Circuit (Opinion Reversing Grant of Partial Summary Judgment, Vacating Preliminary Injunction, and Remanding Case to District Court) A-1

APPENDIX B

United States District Court for the Central District of California (Memorandum Order Granting Plaintiff's Motion For Preliminary Injunction and Partial Summary Judgment) A-9

APPENDIX C

United States Court of Appeals for the Ninth Circuit (Judgment Mandating That Partial Summary Judgment Be Reversed, That Preliminary Injunction Be Vacated, and That Case Be Remanded) A-24

APPENDIX D

Statutes and Regulations Involved:

Section 32 of the Lanham Act, 15 U.S.C. § 1114 ... A-25

Section 43 of the Lanham Act, 15 U.S.C. § 1125 ... A-26

Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526 ..... A-27

19 C.F.R. § 133.21 ..... A-29

APPENDIX E

Declarations of NEC Electronics Inc.'s Customers Evidencing Actual Confusion A-31

TABLE OF AUTHORITIES

Cases

Page

A. Bourjois & Co., Inc. v. Katzel, 260 U.S. 689 (1923) ..... *Passim*
Broadcast Music, Inc. v. CBS, Inc., 441 U.S. 1 (1978) ... 30
Champion Spark Plug Co. v. Sanders, 331 U.S. 125 (1947) 26, 27
Continental T.V., Inc. v. GTE Sylvania Inc., 433 U.S. 36 (1977) 30
McLean v. Fleming, 96 U.S. 245 (1877) 16
Menendez v. Holt, 128 U.S. 514 (1888) 16
Prestonettes, Inc. v. Coty, 264 U.S. 359 (1924) 26, 27
Amoco Oil Co. v. Rainbow Snow, 748 F.2d 556 (10th Cir. 1984) 16
AMP, Inc. v. Foy, 540 F.2d 1181 (4th Cir. 1976) 16
Apollinaris Co. v. Scherer, 27 F. 18 (C.C. S.D.N.Y. 1886) 20
Bell & Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063 (E.D.N.Y. 1982), *rev'd on other grounds*, 719 F.2d 42 (2d Cir. 1983) 12, 16, 21
Control Components, Inc. v. Valte, Inc., 609 F.2d 763 (5th Cir. 1980) 16
Coalition to Preserve the Integrity of American Trademarks ("COPIAT") v. United States, 790 F.2d 903 (D.C. Cir.), cert granted, — U.S. —, 107 S. Ct. 642 (1986) 1, 11, 12
Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Inc., 604 F.2d 200 (2d Cir. 1979) 15
Dial Corp. v. Encina Corp., 643 F. Supp. 951 (S.D. Fla. 1986) 12, 14, 17
Diamond Supply Co. v. Prudential Paper Prods. Co., 589 F. Supp. 470 (S.D.N.Y. 1984) 26
Duracell Inc. v. Global Imports, Inc., No. 83 Civ. 4053 (SWK), slip op. (S.D.N.Y. May 7, 1987) (LEXIS, Genfed library, Dist. file) 12
El Greco Leather Products Co. v. Shoe World, Inc., 806 F.2d 392 (2d Cir. 1986), *rev'g* 599 F. Supp. 1380 (E.D.N.Y. 1984) 12, 25
Fleischmann Distilling Corp. v. Maier Brewing Co., 314 F.2d 149 (9th Cir. 1963) 15

TABLE OF AUTHORITIES
CASES

Page

Fred Gretsch Mfg. Co. v. Schoening, 238 F. 780 (2d Cir. 1916) 20
Frisch's Restaurants, Inc. v. Elby's Big Boy of Steubenville, Inc., 670 F.2d 642 (6th Cir.), *cert. denied*, 459 U.S. 916 (1982) 16
HMH Publishing Co. v. Brincat, 504 F.2d 713 (9th Cir. 1974) 15
International Armament v. Matra Manuhrin Int'l, 630 F. Supp. 74 (E.D. Va. 1986) 12, 17
John Burrough Ltd. v. Sign of the Beefeater, Inc., 540 F.2d 266 (7th Cir. 1976) 16
Levi Strauss & Co. v. Blue Bell, Inc., 632 F.2d 817 (9th Cir. 1980) 15
Model Rectifier Corp. v. Takachiho Int'l, Inc., 220 U.S.P.Q. 508 (C.D. Cal. 1982), *aff'd*, 709 F.2d 1517, 221 U.S.P.Q. 502 (9th Cir. 1983) 12
Monte Carlo Shirt, Inc. v. Daewoo Int'l (Amer.) Corp., 707 F.2d 1054 (9th Cir. 1983) 26
Olympus Corp. v. United States, 792 F.2d 315 (2d Cir.), *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) 12, 26
Original Appalachian Artworks, Inc. v. Granada Electronics, Inc., 816 F.2d 68 (2d Cir. 1987), *aff'g* 640 F. Supp. 928 (S.D.N.Y. 1982) ..... *Passim*
Original Appalachian Artworks, Inc. v. Reichert, No. 85-3483, slip op. (E.D. Pa. March 13, 1987) (LEXIS, Genfed library, Dist. file) 12
Osawa & Co. v. B & H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984) ..... *Passim*
Premier Dental Products Co. v. Darby Dental Supply Co., 794 F.2d 850 (3d Cir.), *cert. denied*, ___ U.S. ___, 107 S. Ct. 436 (1986) 12
Selchow & Righter Co. v. Goldex Corp., 612 F. Supp. 19 (S.D. Fla. 1985) 12
Syntex Laboratories, Inc. v. Norwich Pharmical Co., 437 F.2d 566 (2d Cir. 1971) 15

TABLE OF AUTHORITIES
CASES

Page

University of Georgia Athletic Ass'n v. Laite, 756 F.2d 1535 (11th Cir. 1985) 16
Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, ___ U.S. ___, 106 S. Ct. 791 (1986) ... 12
Weil Ceramics & Glass, Inc. v. Dash, 618 F. Supp. 700 (D.N.J. 1985) ..... *Passim*

Statutes and Codes

Section 526 of the Tariff Act of 1930, 19 U.S.C. Section 1526 ..... *Passim*
Section 32 of the Trademark Act of 1946 (Lanham Act), 15 U.S.C. Section 1114 ..... *Passim*
Section 42 of the Trademark Act of 1946 (Lanham Act), 15 U.S.C. Section 1124 26
Section 43 of the Trademark Act of 1946 (Lanham Act) 15 U.S.C. Section 1125 ..... *Passim*
Trade-Mark Act of 1905, 33 Stat. 724 19
Paris Convention for the Protection of Industrial Property, March 20, 1883, *as revised*, art. 6, *quarter*, 21 U.S.T. 1583, 24 U.S.T. 2140, T.I.A.S. No. 6923 22

Miscellaneous Authorities

3 R. Callman, *Unfair Competition, Trademarks and Monopolies* (L. Altman 4th ed. 1983) 14
3A R. Callman, *Unfair Competition, Trademarks and Monopolies* (L. Altman 4th ed. 1983) 15, 20, 26
1 J. McCarthy, *Trademarks and Unfair Competition* (2d ed. 1984) 14, 15, 21
2 J. McCarthy, *Trademarks and Unfair Competition* (2d ed. 1984) 15
Derenberg, *Territorial Scope and Status of Trademarks and Goodwill*, 47 Va. L. Rev. 753 (1961) 20
Schecter, *The Rational Basis of Trademark Protection*, 40 Harv. L. Rev. 813 (1927) 15
Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 Wash. L. Rev. 433 (1982) ... 21

No.

In the Supreme Court

OF THE

United States

OCTOBER TERM, 1987

NEC ELECTRONICS INC.,
Petitioner,

v.

CAL CIRCUIT ABCO, INC., et. al.,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

NEC Electronics Inc. petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Ninth Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (App. A, *infra*, A-1 through A-8) is reported at 810 F.2d 1506. The opinion of the district court (App. B, *infra*, A-9 through A-23) is not reported.

JURISDICTION

The judgment of the court of appeals (App. A, *infra*, A-1 through A-8) was entered on February 24, 1987. On April 20, 1987, the court of appeals denied a timely Petition for Rehearing and Suggestion for Rehearing *En Banc*. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTES AND REGULATIONS INVOLVED

The relevant statutes and regulations are reproduced as Appendix C, pp. A-25 through A-30, *infra*.

STATEMENT OF THE CASE

As in *Coalition to Preserve the Integrity of American Trademarks ("COPIAT") v. United States*, 790 F.2d 903 (D.C. Cir.), *cert. granted*, __ U.S. __, 107 S. Ct. 642 (1986), this case concerns the unauthorized importation into and sale in the United States of goods manufactured abroad by affiliates of U.S. trademark owners. Many foreign firms that manufacture and sell goods abroad have U.S. subsidiaries that own the U.S. trademarks and act as exclusive authorized U.S. distributors of the trademarked merchandise. Conversely, many U.S. firms that own U.S. trademarks have foreign affiliates that manufacture their goods, apply their marks, and sell the goods abroad. In either situation, the question arises whether an importer may, without the consent of the U.S. trademark owner, bring into the United States and sell goods produced abroad by the foreign affiliate of the U.S. trademark owner and bearing a mark identical to the U.S. trademark.

Genuine goods manufactured abroad and sold without the permission of the U.S. trademark owner have come to be called "gray market" goods, the process of importing them has come to be called "parallel importation," and selling them in the United States has come to be called "gray marketeering." Whereas the issue in *COPIAT* is whether U.S. trademark owners who are

affiliated with foreign manufacturers of the gray market goods are entitled to relief from parallel importation under Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, the issue presented here is whether such trademark owners are entitled to relief from gray marketeering under Sections 32 and 43 of the Lanham Act, 15 U.S.C. §§ 1114 and 1125. *See* App. D, *infra*, pp. A-25 to A-27.

A. FACTUAL BACKGROUND

In this action, commenced February 27, 1985, petitioner NEC Electronics Inc. ("NECEL") asserts, *inter alia*, claims for trademark infringement under sections 1114 and 1125 of the Lanham Act, arising from respondent Cal Circuit ABCO's ("Cal ABCO") unauthorized gray market sales in the U.S. of electronic components bearing NECEL's registered U.S. "NEC" trademark.

NECEL imports and sells semiconductors[1] bearing its "NEC" trademark. ER 11:195-6. [2] NECEL also manufactures in the U.S. twenty-five percent of the semiconductors it sells. NECEL is a wholly-owned U.S. subsidiary of NEC Corporation of Japan, but functions in all respects as a legally separate entity. *Id.* NECEL is the exclusive U.S. owner of the "NEC" mark as applied to semiconductors, and is the sole authorized U.S. source for NEC semiconductors. ER 11:202. In these roles, NECEL spends millions of dollars on advertising, marketing, quality control, technical support and warranty service to create and promote the customer awareness and goodwill associated with NEC semiconductors in the U.S.

Respondent Cal ABCO is an admitted gray market importer of semiconductors bearing the "NEC" mark. ER 11:212, ¶¶ 40, 42. Cal ABCO does not purchase "NEC"-marked semiconductors from NECEL or NEC Corporation. Cal ABCO purchases the products from unknown sources overseas, imports them through

---

[1] NECEL is the U.S. markowner and exclusive U.S. distributor of a variety of "NEC"-trademarked electronic components. Most of them, including those principally involved in this action, fall within the "semiconductor" category. For ease of reference, this petition refers to NECEL's products collectively as "semiconductors."

[2] Page references to the "Excerpt of Record" filed in the court of appeals are given in the form "ER : ." The tab number is before the colon, and the page number after.

channels over which NECEL has no quality control, and sells them in the U.S. without NECEL's consent. *Id.*; ER 13:606-608, ¶ 10. Neither NECEL nor NEC Corporation has ever authorized Cal ABCO to use the "NEC" mark in any manner or to sell products bearing the "NEC" mark in the U.S. ER 11:212, ¶¶ 40, 42. Having invested nothing to promote the goodwill associated with NEC components, Cal ABCO enjoys an undeserved pricing advantage, reaps easy profits, and takes a "free ride" on NECEL's huge U.S. investment in the "NEC" mark.

"NEC"-marked semiconductors are extraordinarily complex and fragile components used in consumer and industrial equipment such as medical devices, computers, automobiles, calculators and watches. ER 13:599, ¶ 4; ER 11:196, ¶ 7 and 233. Semiconductor purchasers who make such equipment are known as original equipment manufacturers ("OEMs").

The U.S. market for semiconductors includes numerous brands and is extremely competitive. ER 11:202, ¶ 13. NECEL competes with Motorola, Texas Instruments, Advanced Micro Devices, National Semiconductor, Intel, Fairchild, Hitachi, Toshiba, Fujitsu, Mitsubishi and dozens of other companies. *Id.*

NECEL's efforts to promote the "NEC" mark, establish and maintain the goodwill associated with "NEC" components, and promote the sale of "NEC" semiconductors include:

Free "front end" technical support. Approximately 98% of "NEC" semiconductor sales in the U.S. are to OEMs who have formally "designed in" and "qualified" the "NEC" product for a specific application (*e.g.*, a personal computer). ER 11:204, ¶ 16. This "design in" and "qualification" support provided by NECEL is a lengthy process which includes, but is not limited to, developing a design which incorporates the "NEC" semiconductor, and then testing the component to predict appropriate functioning of that design.[3]

---

[3]At great expense, NECEL provides free product samples, documentation, engineering and technical support to OEMs in this lengthy design in/qualification process. *Id.* ¶ 17; ER 17:743, ¶ 5; ER 22:773, ¶ 3; ER 24:792; ER 24:800; ER 45:01738-01740, ¶¶ 5-10; ER 51:1881. Only after the "NEC" semiconductor is formally "designed in" and "qualified" is NECEL able to sell "NEC" parts to the OEM. ER 11:203-204, ¶ 16; ER 45:1739, ¶ 6. In this way, NECEL's "front end" expense and

Quality control. NECEL exercises strict quality control in the manufacturing, handling and distribution of "NEC" semiconductors. ER 13:600-606, 610-611, ¶¶ 6-9, 11.[4]

Advertising and promotion. NECEL spends millions of dollars annually to advertise and promote its semiconductors in conjunction with the "NEC" mark and the "NEC Electronics Inc." name. ER 11:203, ¶ 14; ER 12:337-39, ¶¶ 29-32; ER 14:714-15, ¶ 5.[5]

Warranty service. For products as complex as semiconductors, a mere "money back" guarantee is insufficient. ER 13:609-10, ¶ 10(I); ER 19:753, ¶ 6; ER 51:1892; ER 46:1744-48, ¶¶ 4-13. Therefore, NECEL offers an extensive free warranty service.[6]

---

effort create the U.S. demand for "NEC" electronic components. Free "front end" engineering and technical support is the universal custom and practice in the U.S. semiconductor industry. ER 11:205, ¶ 18. NECEL simply cannot charge for this service, and the cost must be recouped through eventual sales. *Id.*

[4] NECEL uses a system known as "Total Quality Control" to prevent manufacturing flaws, and subjects the product to 100% testing. *Id.* ¶ 6. NECEL also utilizes stringent quality control in the handling and distribution of both NEC Corporation-manufactured imports and NECEL-manufactured domestic product. *Id.* ¶¶ 7, 11. To assure that "NEC" semiconductors sold to U.S. OEMs are of high quality and reliability, NECEL employs detailed, proprietary quality control procedures governing manufacturing, inspection, packaging, repackaging, storage environment, equipment, inventory rotation, specification review, and the like. *Id.* ¶¶ 7, 11; ER 13:613-711.

[5] These efforts include prominent weekly advertisements in numerous national and local trade journals and other publications; direct mail advertising campaigns; participation in trade shows, forums and seminars; company-sponsored technical articles and papers on "NEC" products; seminars and training sessions for potential customers; provision of free NECEL-created documentation, technical data and promotional literature to customers; and other efforts. ER 12:331, ¶¶ 2-25 and 341-395. NECEL acts independently of NEC Corporation in these U.S. advertising efforts. ER 44:1729, ¶ 2.

[6] When an OEM experiences difficulty testing or manufacturing, the OEM needs to know what is wrong. The problem can be in either the component, the OEM's testing program, the OEM's circuit design, or the OEM's manufacturing process. To answer these questions and solve the OEM's problem, NECEL provides extensive free warranty service.

Other efforts. NECEL's ongoing efforts to promote the "NEC" mark and establish demand for and goodwill of "NEC" semiconductors also include the selection and training of technical personnel, sales representatives and authorized distributors;[7] maintenance of extensive inventories to respond to customer demands (ER 11:210, ¶¶ 31-33); home office educational programs for customers (ER 11:210-211, ¶¶ 34-37); and other activities.

The product NECEL provides to U.S. customers under the "NEC" mark consists of much more than the mere physical component itself. The product consists of the semiconductor, the information and documentation concerning its characteristics and functions, the "front end" technical assistance and support to ensure that it meets the customer's needs and functions properly in the customer's application, the product backing and technical

---

NECEL technical personnel typically meet with the OEM, investigate the OEM's testing and manufacturing processes, conduct a sophisticated failure analysis of the "NEC" product, produce a detailed technical failure analysis report, consult with NEC Corporation concerning any potential manufacturing problems, and assist the OEM in resolving the difficulty. ER 13:604-605, ¶ 7(G) and 672-76; ER 24:802; ER 51:1881; ER 46:1742-1759. Often the "NEC" product is not defective, and the problem can be corrected by alterations in the OEM's circuit design, testing or manufacturing process. ER 13:605 and 672-76; ER 24:803; ER 51:1892; ER 46:1745-46, ¶ 8. NECEL's extensive free warranty support serves the dual purpose of protecting the reputation of "NEC" products and promoting customer goodwill. ER 13:604-05, ¶ 7(G); ER 24:802-804; ER 46:1742-1759; ER 51:1890-92. In conjunction with the "front end" technical assistance and information NECEL provides, NECEL's warranty service also helps keep the failure rate of "NEC"-marked semiconductors relatively low. ER 46:1747-48, ¶ 2.

[7] The front-line NECEL sales force is a nationwide network of field application engineers ("FAEs"), sales representatives, authorized distributors and NECEL sales personnel. ER 11:198-201, ¶ 10. These individuals participate in the free "front end" technical support, advertising and promotion, warranty service and other activities to promote the "NEC" mark and create demand for "NEC" semiconductors. NECEL uses stringent guidelines to select FAEs, sales personnel, representatives and distributors. ER 11:208-10, ¶¶ 27-30. NECEL also conducts continuous technical training for these individuals. *Id.*, 208-10, ¶¶ 23-26.

warranty service, and the unique image created by NECEL's advertising and promotional activities. ER 11:212, ¶ 39.

NECEL has earned extensive goodwill in the U.S. connected with the semiconductors it offers under the "NEC" mark. ER 11:197, ¶ 8; ER 16:737-38, ¶ 6; ER 23:782, ¶ 7; ER 19:752, ¶ 4; ER 20:757-58, ¶ 3; ER 22:793, ¶ 3. The reputation and goodwill associated with the "NEC" mark for NECEL's products are indispensible business assets of NECEL in the highly competitive U.S. market for semiconductors. *Id.*

Cal ABCO imports, handles, packages, repackages, stores and distributes the "NEC"-marked semiconductors through channels over which NECEL has no quality control. ER 11:212, ¶¶ 40, 42; ER 13:606-08, ¶ 10. Cal ABCO sales personnel then market the "NEC"-marked product in the U.S. by means and representations over which NECEL has no control. *Id.*

Cal ABCO simply sells the semiconductor component itself. Cal ABCO does not provide the pre-sale technical "design-in" or "qualification" support to OEMs, or the comprehensive post-sale warranty service and technical support, provided by NECEL. ER 32:1482, ¶ 10; ER 50:1862-64.

However, Cal ABCO advertisements in trade journals prominently feature NECEL's "NEC" mark. ER 11:214-15, ¶ 45 and 311-13, 315. Other Cal ABCO advertisements feature photographs of boxes bearing the "NEC" mark. ER 11:213-14, ¶ 44, and 314. Cal ABCO catalogs display the "NEC" mark in both text and photographs (*Id.*; ER 11:213-14, ¶ 44, and 256-58, 283-85), and Cal ABCO makes other unauthorized uses of the "NEC" mark. ER 11:213-14, ¶ 44.

In short, Cal ABCO sells product bearing the "NEC" mark; uses the "NEC" mark in its marketing efforts; and creates the false impression that Cal ABCO's goods are connected with and backed by NECEL.

B. CONFUSION AND IRREPARABLE HARM

Predictably, Cal ABCO's conduct creates confusion in the marketplace. Customers buy NEC semiconductors from Cal ABCO believing that Cal ABCO is sponsored by, affiliated with or connected with NECEL, and/or that NEC components sold by Cal ABCO are supported by NECEL's comprehensive technical and warranty service.

Unlike the typical trademark case where the infringer is using a "look alike" or "sound alike" mark, in this case Cal ABCO is using the "NEC" mark itself. Customer confusion is inevitable; indeed, this is one of those rare cases involving evidence of *actual* confusion. As the district court found, Cal ABCO's mere *use* of NECEL's mark causes confusion. App. B, *infra*, at pp. A-20 to A-21. *See also* App. E, *infra*, at pp. A-31 to A-59 (declarations of consumers confused over Cal ABCO's use of "NEC" mark).[8]

As a result of consumer confusion, NECEL is being deprived of its most valuable asset—the ability to control its own reputation and the goodwill associated with NEC semiconductors in the U.S. Moreover, Cal ABCO's conduct has caused, and is continuing to cause, demoralization and disaffection among NECEL's sales force, leading to declining performance and lost opportunities that cannot be quantified. NECEL is being forced to provide free warranty service on "NEC" semiconductors sold by Cal ABCO, and is being robbed of its huge investment in advertising, technical support, quality control, warranty and other services.

Cal ABCO also takes a "free ride" on NECEL's U.S. investment in the "NEC" mark. First, Cal ABCO provides no "design in/qualification," but simply steps in to reap easy profits without having borne the cost of NECEL's "front end" effort. Second, without incurring the cost of NECEL's rigorous quality control, Cal ABCO takes a free ride on the resulting goodwill. Third, Cal ABCO spends nothing to advertise or promote "NEC" products vis-a-vis competitive non-"NEC" products, but instead appropriates the benefits of NECEL's brand advertising and promotion without bearing the cost. Fourth, because OEMs purchase from

---

[8] There have been many other instances of confusion, including customers believing Cal ABCO buys "direct from the factory" (ER 24:808-811); customers believing Cal ABCO to be an authorized NECEL distributor (ER 24:815-18; ER 24:796-99; ER 18:747-48, ¶ 3); customers turning to NECEL for warranty service on "NEC" parts sold by Cal ABCO (ER 11:223, ¶ 68; ER 24:821); customers who expect that NECEL will provide warranty service for all "NEC"-marked semiconductors (ER 16:737-38, ¶ 6; ER 21:766-67, ¶ 8; ER 24:802-04); customers who have attempted to return excess Cal ABCO-furnished inventory to NECEL for credit (ER 24:824-25); authorized NECEL distributors confused by price disparities (ER 11:219-221, ¶¶ 55-60, and 224-25, ¶¶ 73-75; ER 24:826-27); and the like.

both authorized NECEL distributors and unauthorized sources, such as Cal ABCO, many OEMs routinely commingle "NEC"-marked parts from all sources, and the parts become indistinguishable and untraceable. OEMs expect that NECEL will provide warranty service on all "NEC"-marked parts. As a practical matter, NECEL has no alternative. Cal ABCO thus takes a "free ride" on NECEL's comprehensive warranty service.

C. THE DECISIONS BELOW

On December 3, 1985, NECEL filed two motions: (1) for leave to add claims under Section 526 of the Tariff Act of 1930, 19 U.S.C. section 1526, and under 15 U.S.C. section 1124 (barring importation of goods that "copy or simulate" a trademark), and (2) for a preliminary injunction and partial summary judgment that Cal ABCO's gray market sales of "NEC"-trademarked semiconductors in the U.S. constitute trademark infringement under sections 1114 and 1125 of the Lanham Act. In support of the latter motion, NECEL filed detailed declarations, deposition excerpts and documentary evidence establishing the factual matters discussed above.

On July 1, 1986, the district court issued an order denying NECEL's motion to add a claim under Section 526 of the Tariff Act, and on August 18, 1986 the court issued its Memorandum Order granting the preliminary injunction and granting partial summary judgment that Cal ABCO's conduct constitutes trademark infringement under sections 1114 and 1125. App. B, *infra*, at pp. A-9 to A-23. The Memorandum Order finds and concludes, among other things, that NECEL's extensive efforts and expenditures have created substantial separate goodwill associated with "NEC"-trademarked semiconductors in the U.S., and that Cal ABCO's use of the mark is not only likely to cause, but is in fact causing, customer confusion. *Id.* Moreover, based on the unrefuted evidence referred to above, the district court found that NECEL is being irreparably harmed by Cal ABCO's conduct. App. B, *infra*, at pp. A-21-to A-22.

The Ninth Circuit Court of Appeals reversed, holding that despite NECEL's evidence, including *actual* confusion as to sponsorship, affiliation, connection and product backing, trademark law simply *does not reach* the sale of "genuine goods", and even if it did, U.S. markowners affiliated with foreign manufacturers of gray market goods cannot seek relief from gray

marketeering under Sections 32 and 43 of the Lanham Act. App. A, *infra*, at pp. A-1 to A-9.

This decision is premised on the following holdings: (1) that the sale of "genuine goods" does not constitute trademark infringement because "trademark law is designed only to prevent sellers from confusing or deceiving consumers about the *origin or make* of a product. . . ." [App. A, *infra*, at p. A-5 (emphasis added)]; (2) that this Court's decision in *A. Bourjois & Co., Inc. v. Katzel*, 260 U.S. 689 (1923), holding gray marketeering illegal under U.S. trademark law, is inapposite because the plaintiff in *Katzel* was not affiliated with the foreign manufacturer of the "genuine goods" [App. A, *infra*, at pp. A-5 to A-6]; (3) that notwithstanding Cal ABCO's unauthorized sale of "NEC" products, NECEL is not being deprived of the ability to control the goodwill associated with "NEC" components in the U.S. [App. A, *infra*, at p. A-7]; and (4) despite the fact that this issue was never addressed below, that NEC Corporation has allegedly created the gray market by establishing "a worldwide discriminatory pricing scheme" [App. A, *infra*, at p. A-8].

The court of appeals' holding that trademark law is designed only to prevent confusion as to "origin" or "make" of a product is in direct conflict with the Lanham Act itself, and with settled law in the Ninth Circuit and numerous other circuits, holding that the Lanham Act is also intended to prevent *confusion as to sponsorship, affiliation, connection or product backing*. Moreover, the court's holding that trademark law does not reach the sale of "genuine goods" ignores *Katzel* and other Supreme Court decisions holding that federal trademark law applies to the sale of "genuine goods."

The court of appeals' ruling that this Court's decision in *Katzel* does not control this case is simply wrong. Nothing in *Katzel* indicates that the result there was predicated on the plaintiff's corporate independence from the manufacturer of the infringing imported goods. On the contrary, the entire opinion supports NECEL's position, and *Katzel's* analysis of consumer confusion transcends any notions of corporate affiliation. Furthermore, the court of appeals' position conflicts with the recent Second Circuit decision in *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68 (2d Cir. 1987), which holds that

the Lanham Act does apply in gray market cases like the one at bar, and that corporate affiliation is not dispositive.

The court's holding that NECEL is not deprived of its ability to control the goodwill of the "NEC" mark by Cal ABCO's gray marketeering also ignores *Katzel*, and is based on a misinterpretation of the facts. The district court found that NECEL's quality control, technical support and warranty service enable NECEL to guarantee the excellence of the product and that therefore the goodwill associated with "NEC"-marked semiconductors in the U.S. results from NECEL's unique efforts. App. B, *infra*, at pp. A-18 to A-19. Although the court of appeals acknowledges the importance of quality control in *manufacturing*, it completely ignores the need for quality control, technical support and warranty service in the *distribution* of semiconductors.

Finally, and perhaps the most egregious error, is the court's unsupported accusation of "international price discrimination." This "finding" has absolutely no support in the record, was not addressed below, and even if true (which it is not), would be irrelevant to the availability of trademark law relief. Conjecture that gray markets are created by worldwide discriminatory pricing has the superficial appeal of simplicity, but it ignores the economic reality that the ability of gray marketeers to undersell authorized distributors is more likely due to non-discriminatory economic factors. These factors include free-riding, international currency fluctuations, differing marketing cost conditions in other countries, gray marketeers obtaining inferior or secondhand product from questionable sources, cost-cutting on quality control by gray marketeers, and other factors. Moreover, the Ninth Circuit's charge of price discrimination can only be viewed as ironic since another arm of the U.S. government has imposed "fair market values" which set *minimum* prices at which NECEL can sell its products, based on allegations of below-cost pricing.[9]

In sum, the court of appeals' opinion accepts the district court's finding that Cal ABCO's gray market sales cause customer confusion concerning NECEL's sponsorship and backing of

---

[9] *See* Arrangement Between the Government of Japan and the Government of the United States Covering Trade In Semiconductor Products. 51 Fed. Reg. 28396 (Aug. 7, 1986); 51 Fed. Reg. 39680 (Oct. 30 1986).

"NEC"-trademarked product sold by Cal ABCO, and the district court found that Cal ABCO's conduct deprives NECEL of the ability to control the goodwill associated with "NEC" semiconductors in the U.S. Normally, these undisturbed findings by themselves would entitle NECEL to appropriate relief under the Lanham Act. The failure of the Ninth Circuit to grant such relief on the facts present here warrants review by this Court.

REASONS FOR GRANTING THE PETITION

I

The Fact That U.S. Markowners Are Looking to Both the Lanham Act and the Tariff Act of 1930 for Relief From Gray Marketeers, Coupled with the Fact that this Court Now Has Before it the *COPIAT* Case which Addresses the Issue of Whether Affiliated U.S. Markowners are Entitled to Relief from Gray Marketeering Under the Tariff Act, Requires that this Court Grant Review of this Case to Fully Resolve the Question of What Federal Statutory Relief, if Any, Affiliated U.S. Markowners Have Against Gray Marketeers.

This Court recently granted a petition for writ of certiorari in *Coalition to Preserve the Integrity of American Trademarks ("COPIAT") v. United States*, 790 F.2d 903 (D.C. Cir.), *cert. granted*, ___ U.S. ___, 107 S. Ct. 642 (1986), to resolve a conflict in the circuit courts concerning the validity of the United States Customs Service regulations which permit the importation of gray market goods when (1) the foreign and U.S. trademarks are owned by the same person; (2) the foreign and U.S. trademark owners are subject to common ownership or control; or (3) the trademark was applied under authorization of the U.S. trademark owner. *See* App. D, *infra*, at pp. A-29 to A-30. These regulations have come under attack from U.S. markowners affiliated with, or subsidiaries of, foreign manufacturers, because the regulations are inconsistent with Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526 [App. D, *infra*, at pp. A-27 to A-29], which plainly restricts the unauthorized importation of foreign merchandise bearing a trademark owned or registered by a U.S. citizen, corporation, or association. Thus, the ultimate issue now pending before the Court in *COPIAT* is whether U.S. markowners who are affiliated with foreign manufacturers of the gray market goods are entitled to relief under the Tariff Act.

The issues presented by the present case are directly related and actually parallel to the question raised in *COPIAT*. Here, the issues in need of resolution are (1) does the Lanham Act reach the sale of gray market goods; and (2) if so, are U.S. markowners who are affiliated with foreign manufacturers of the gray market goods entitled to relief under the Lanham Act. These questions are of immediate and substantial importance because numerous U.S. markowners are seeking relief from gray marketeering by proceeding under Sections 32 and 43 of the Lanham Act, 15 U.S.C. ¶¶ 1114 and 1125, Section 526 of the Tariff Act of 1930, 19 U.S.C. ¶ 1526, or, in the usual case, under both theories.[10] Since U.S. markowners are looking to both the Lanham Act and the Tariff Act for relief from gray marketeering, resolving only the issues raised in *COPIAT* will not fully resolve the question of what

---

[10] Cases in which U.S. markowners have proceeded under the Lanham Act include: *Original Appalachian, supra*; *Premier Dental Products Co. v. Darby Dental Supply Co.*, 794 F.2d 850 (3rd Cir.), *cert. denied*, ___ U.S. ___, 107 S. Ct. 436 (1986); *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 548 F. Supp. 1063 (E.D.N.Y. 1982), *rev'd on other grounds*, 719 F.2d 42 (2d Cir. 1983); *Duracell Inc. v. Global Imports, Inc.*, No. 83 Civ. 4053 (SWK), slip op. (S.D.N.Y. May 7, 1987) (LEXIS, Genfed library, Dist. file); *Original Appalachian Artworks, Inc. v. Reichert*, No. 85-3483, slip op. (E.D. Pa. March 13, 1987) (LEXIS, Genfed library, Dist file); *Weil Ceramics & Glass, Inc. v. Dash*, 618 F. Supp. 700 (D.N.J. 1985); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19 (S.D. Fla. 1985); *El Greco Leather Products Co., Inc. v. Shoe World, Inc.*, 806 F.2d 392 (2d Cir. 1986), *rev'g* 599 F. Supp. 1380 (E.D.N.Y. 1984); *Osawa & Co. v. B&H Photo*, 589 F. Supp. 1163 (S.D.N.Y. 1984); *Model Rectifier Corp. v. Takachiho Int'l, Inc.*, 220 U.S.P.Q. 508 (C.D. Cal. 1982), *aff'd*, 709 F.2d 1517, 221 U.S.P.Q. 502 (9th Cir. 1983); *Dial Corp. v. Encina Corp.*, 643 F. Supp. 951 (S.D. Fla. 1986); and *International Armament v. Matra Manuhrin Int'l*, 630 F. Supp. 74 (E.D.Va. 1986).

Cases in which U.S. markowners have proceeded under the Tariff Act include: *Original Appalachian, supra*, *Premier Dental, supra*; *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir.), *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757); *COPIAT, supra*; *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, ___ U.S. ___, 106 S. Ct. 791 (1986); *Duracell, supra*; *Weil Ceramics, supra*; *Selchow & Righter, supra*; *El Greco, supra*; *Osawa, supra*; *Bell & Howell, supra*; *Dial Corp. supra*; and *International Armament, supra*.

relief is available to U.S. markowners, especially markowners affiliated with foreign manufacturers of gray market goods. In light of the fact that half of this question is presently before the Court, review in this case should be granted in order to address the other half.

II

The Question of Whether Affiliated U.S. Markowners are Entitled to Federal Statutory Relief from Gray Marketeering is of Immediate and Substantial Commercial Importance Throughout the United States and Abroad.

The fact that numerous U.S. markowners, affiliated and otherwise, are seeking relief under the Lanham Act against gray marketeering, and are receiving inconsistent treatment in the lower courts, is indication enough that Supreme Court review of this case is sorely needed. Fluctuations in international currencies and differing marketing cost conditions overseas, both of which are necessary by-products of global markets, will continue to encourage gray marketeering. Moreover, as long as gray marketeers are able to obtain significant pricing advantages through "free riding," the rapid growth of the gray market will persist. Given this state of affairs, U.S. markowners should have clear and consistent guidance as to what federal statutory relief is available to prevent parallel importation.

The importance of these issues, and the need for clarification and review, is clearly exemplified by the court of appeals' decision in this case. The Ninth Circuit's holding that *un*affiliated U.S. markowners should be allowed to enforce their exclusive U.S. distribution rights against gray marketeers under the Lanham Act, but that affiliated U.S. markholders should be prohibited from obtaining similar relief is economically senseless. The potential economic consequences of granting relief are clearly *identical* in either case.

Moreover, the unsound and incongruous principles of trademark law advanced by the Ninth Circuit to justify denial of relief to NECEL in this case cannot be expected to have only limited application. The opinion will have a devastating impact on the ability of NECEL and innumerable other domestic trademark owners to protect the goodwill earned for, and associated with, their marks in this country at great expense and effort. This

impact will extend to domestic industries whose products happen to be marketed abroad by affiliated or licensed companies. *See, e.g., Dial Corp. v. Encina Corp.*, 643 F. Supp. 951, 953-56 (S.D. Fla. 1986) (granting Lanham Act relief against gray marketeering to U.S. company whose subsidiary marketed the trademarked product overseas); *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68 (2d Cir. 1987), *aff'g* 640 F. Supp. 928 (S.D.N.Y. 1986) (granting Lanham Act relief to U.S. markowner to prevent gray market sales of products manufactured abroad under license from U.S. markowner).

The price of the Ninth Circuit's decision will also be paid by U.S. consumers. They will be subjected to the deception inherent in gray marketing, which is so vividly demonstrated by the factual record in this case, and which has been recognized by other lower courts deciding gray market cases. Consumers will also be deprived of the commitment to quality and service that will inevitably result from the erosion of trademark rights.

III

The Court of Appeals' Holding That The Lanham Act Is Designed to Remedy Only Confusion as to the "Origin" or "Make" of a Product Directly Conflicts with The Lanham Act Itself, Prior Ninth Circuit Opinions, and Other Court of Appeals Decisions.

The court of appeals' opinion is fundamentally premised on its holding that trademark law is designed only to prevent confusion "about the *origin or make* of a product. . . . " App. A, *infra*, at p. A-5 (emphasis added). This ruling is in direct conflict with the Lanham Act, and with settled law in the Ninth Circuit and elsewhere holding that the Lanham Act is also intended to prevent confusion as to sponsorship, affiliation, connection or product backing.

In the early development of trademark law, trademarks were thought to represent to the consumer only the physical source or origin of the product in connection with which the mark was used. *See, e.g.*, 3 R. Callmann, *Unfair Competition, Trademarks and Monopolies* §17.02, at 17-6 to 17-7 (L. Altman 4th ed. 1983); 1 J. McCarthy, *Trademarks and Unfair Competition* §3:3, at 110-11 (2d ed. 1984). Thus, only consumer confusion as to source of origin was actionable under the infringement statutes.

Over the years, however, the source function was moderated by the courts to mean that a trademark guarantees that all goods bearing the same mark "emanate from the same—possibly anonymous—source or have reached the consumer through the same channels." Schecter, *The Rational Basis of Trademark Protection*, 40 Harv. L. Rev. 813, 816 (1927). *See also* 1 McCarthy, *supra*, § 3:3B, at 111 ("[Buyers are] entitled to assume that all products carrying the same trademark are somehow linked with or sponsored by that single, anonymous source.") In recognition of this evolution of the law, in 1962 Congress amended Section 32 of the Lanham Act (which in its original form required a showing of likelihood of confusion "as to the source of origin of such goods or services") to eliminate the "source of origin" language, "thereby evincing a clear purpose to outlaw the use of trademarks which are likely to cause confusion, mistake or deception of *any kind*, not merely of purchasers nor simply as to source of origin." *Syntex Laboratories, Inc. v. Norwich Pharmical Co.*, 437 F.2d 566, 568 (2d Cir. 1971) (emphasis added).

This broadening of the source function naturally brought about an expansion of the type of consumer confusion needed to expose infringing marks. Since a trademark no longer simply served as an indicia of source, actionable confusion was not limited to confusion as to source. "The modern rule of law gives the trademark owner protection against use of its mark on any product or service which would reasonably be thought by the buying public to come from the same source, or thought to be affiliated with, connected with, or sponsored by, the trademark owner." 2 *McCarthy*, *supra*, § 24:3, at 166. *See also* 3A Callmann, *supra*, § 20.03, at 20-9. Thus, it is well-settled that "[t]he confusion remedied by trademark and unfair competition law is confusion not only as to source, but also as to affiliation, connection or sponsorship." 2 McCarthy, *supra*, § 23:1D, at 47.

These principles have been firmly established in the Ninth Circuit and virtually all other circuits having occasion to address the issue.[11] Indeed, in *HMH Publishing Co. v. Brincat*, 504 F.2d

---

[11] *See, e.g., HMH Publishing Co. v. Brincat*, 504 F.2d 713, 716 n.7 (9th Cir. 1974); *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 314 F.2d 149, 154-155 (9th Cir. 1963); *Levi Strauss & Co. v. Blue Bell, Inc.*, 632 F.2d 817, 821-22 (9th Cir. 1980); *Dallas Cowboys Cheerleaders,*

713, 716 n.7 (9th Cir. 1974), the Ninth Circuit held that "[t]he literal language of [the Lanham Act] is sufficiently broad to unequivocally embrace a cause of action based on confusion as to commercial sponsorship."

The court of appeals' failure to consider consumer confusion other than that as to source of origin is made all the more damaging by the court's statement that "the mark 'NEC' on Abco's products truly designates the chips as having been manufactured under the control of NEC-Japan, *even if the mark has become associated here [in the United States] with* NEC-USA." App. A, *infra*, at p. A-7 (emphasis added).[12] Moreover, overlooking sponsorship confusion led the court to overlook several material facts, all of which are amply supported by the evidence and district court findings:

1. NECEL's costly domestic advertising, promotion, customer technical support, documentation, quality control, warranty service and other efforts have created substantial separate goodwill for "NEC"-trademarked semiconductors in the United States. App. B, *infra*, at pp. A-18, A-23.

2. Although the parties stipulated for purposes of the motions below that Cal ABCO's product is "genuine" in the

---

Inc. v. Pussycat Cinema, Inc., 604 F.2d 200, 204-05 (2d Cir. 1979); *AMP, Inc. v. Foy*, 540 F.2d 1181, 1185 (4th Cir. 1976); *Control Components, Inc. v. Valte, Inc.*, 609 F.2d 763, 771 (5th Cir. 1980); *Frisch's Restaurants, Inc. v. Elby's Big Boy of Steubenville, Inc.* 670 F.2d 642, 646 (6th Cir.), *cert. denied*, 459 U.S. 916 (1982); *John Burrough Ltd. v. Sign of the Beefeater, Inc.*, 540 F.2d 266, 274 (7th Cir. 1976); *Amoco Oil Co. v. Rainbow Snow*, 748 F.2d 556, 558-59 (10th Cir. 1984); *University of Georgia Athletic Ass'n v. Laite*, 756 F.2d 1535, 1546-47 (11th Cir. 1985); *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.* 816 F.2d 68, 75 (2d Cir. 1987) (Cardamone, J., concurring).

[12] It has long been settled that a distributor may own a trademark and receive protection for its use on a product he does not manufacture. *Menendez v. Holt*, 128 U.S. 514, 520 (1888); *McLean v. Fleming*, 96 U.S. 245, 254 (1877). "In such circumstances the term 'origin' denotes the party responsible for exercising judgment respecting the quality of the goods it distributes to the public." *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 548 F. Supp. 1063, 1070 (E.D.N.Y. 1982), *rev'd on other grounds*, 719 F.2d 42 (2d Cir. 1983).

sense that it is manufactured by NEC Corporation, the "product" NECEL sells *in the U.S.* is markedly different from the product that leaves the factory in Japan or elsewhere overseas. In any meaningful sense Cal ABCO is selling a much different product than NECEL under the "NEC" trademark in the U.S., because Cal ABCO's "NEC" product is not accompanied by the unique service, quality control, and warranty support which is publicly associated with NECEL's "NEC" mark in the U.S. and which is an inseparable part of NECEL's product. App. B, *infra*, at pp. A-19, A-23. *See also* discussion, *infra*, under Section V.

3. Because of these facts, Cal ABCO's use of NECEL's mark is not only likely to cause, but does in fact cause, confusion concerning sponsorship, affiliation and product backing. App. B, *infra*, at pp. A-18 to A-21, A-23.

4. Cal ABCO's use of NECEL's trademark deprives NECEL of the ability to control the hard-earned goodwill associated with "NEC" semiconductors in the U.S. App. B, *infra*, at pp. A-19, A-21, A-23.

Against this factual background, the circuit court's suggestion that NECEL's remedy may be "in contract or tort, but not in trademark" [App. A, *infra*, at p. A-7] is more than puzzling—NECEL has no contractual relationship with Cal ABCO, and the idea of remedying a nationwide trademark infringement problem under state tort law is fanciful at best—it is just plain contrary to the purposes of the Lanham Act.[13] By overlooking controlling law and erroneously holding that the Lanham Act only

---

[13] The same holds true for the Ninth Circuit's suggestion that NECEL's remedy may be under Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526. App. A, *infra*, at p. A-7 n.4; App. D, *infra*, at pp. A-27 to A-29. Congress' enactment of Section 526, a statute which prohibits importation and does not require a showing of confusion, is in no way inconsistent with the existence of a parallel remedy under the Lanham Act in cases where the markowner can show a likelihood of confusion resulting from unauthorized use of the mark in U.S. commerce. Cases granting relief under both Acts are legion. *See, e.g., Weil Ceramics & Glass, Inc. v. Dash*, 618 F. Supp. 700 (D.N.J. 1985); *International Armament v. Matra Manuhrin Int'l*, 630 F. Supp. 741 (E.D. Va. 1986); *Osawa*, 589 F. Supp. at 1163; *Dial Corp. v. Encina Corp.*, 643 F. Supp. 951, 953-56 (S.D. Fla. 1986).

reaches confusion as to "origin or make" the Ninth Circuit has deprived NECEL of an important remedy, and has advanced a principle that threatens to erode critical trademark law protections in many contexts.

IV

The Holding of the Court of Appeals is Premised on Misinterpretations and Misapplications of This Court's Decisions in *Katzel* and Other Cases Concerning the Applicability of Federal Trademark Law to the Resale of Genuine Goods.

Despite the tremendous amount of gray market litigation in the nation's courts today, prior to the late 1970's there were only a handful of gray market-related cases. The seminal case is *A. Bourjois & Co., Inc. v. Katzel*, 260 U.S. 689 (1923), *rev'g* 275 F. 539 (2d Cir. 1921). *Katzel* established the principle that the U.S. trademark laws prohibit parallel importation and sale of "genuine" gray market goods.

In *Katzel*, the plaintiff acquired the U.S. marks "JAVA" and "BOURJOIS" from a French cosmetic manufacturer. The plaintiff then imported powder from the French concern and distributed it in the U.S. under its marks. Although plaintiff used "substantially the same form of box and label" as the French manufacturer, plaintiff made efforts to develop the product specifically "for the American market," and had "spent much money in advertising, & c., so that the business has grown very great and the labels have come to be understood by the public here [in the U.S.] as meaning goods coming from the plaintiff." 260 U.S. at 691. The defendant bought genuine powder bearing the same marks from the French concern and imported and sold it in the United States.[14]

---

[14] As this Court noted in *Katzel*, the defendant's decision to import and sell in the U.S. foreign manufactured goods was prompted by the favorable "rate of exchange." *A. Bourjois & Co., Inc. v. Katzel*, 260 U.S. 689, 691 (1923). Despite the court of appeals' unsupported accusation in this case that NEC Corporation has invited gray market sale of its product by engaging in "international price discrimination" [App. A, *infra*, at A-9], the economic reality is that the ability of gray marketeers to undersell authorized distributors is due to non-discriminatory economic factors. In addition to the international currency fluctuations referred to in *Katzel*, these factors include free-riding, differing market-

The underlying product marketed by the plaintiff and defendant in *Katzel* was identical—"genuine" cosmetic powders manufactured by the French concern. There was no evidence that defendant's goods were altered or inferior. Nonetheless, the Supreme Court recognized that allowing parallel importation of "genuine" gray market goods causes confusion as to who stands behind and guarantees the product and its quality in the U.S., thereby depriving the U.S. markholder of the ability to control its reputation. Justice Holmes wrote that:

> [o]wnership of the goods does not carry the right to sell them with a specific mark. It does not necessarily carry the right to sell them at all in a given place. . . . It is said that the trademark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trademark of the plaintiff only in the United States and indicates in law, and, it is found, by public understanding, that the goods come from the plaintiff although not made by it. . . . It stakes the reputation of the plaintiff upon the character of the goods.

260 U.S. at 692. The Court held that the district court had properly granted an injunction under the Trade-Mark Act of 1905, 33 Stat. 724.

In the present case, the court of appeals held that, despite the similarity in facts, *Katzel* is based on two rationales that "presuppose the American [trademark] owner's real independence from the foreign manufacturer." App. A, *infra*, at p. A-6. The first "rationale", according to the court, was that the plaintiff had purchased the marks outright through "an arm's-length contract with the [foreign] manufacturer", and therefore the *Katzel* Court was not "prepared to permit the manufacturer to 'evade' this restriction by selling to middlemen abroad for sale in the United States, thus to deprive the American mark owner of the entire benefit of its bargain." *Id.* at p. A-5. The second "rationale" was that the plaintiff in *Katzel* "had become the true source of the trademarked goods [in the U.S.], and the value of plaintiff's

---

ing cost conditions in other countries, gray marketeers obtaining inferior or secondhand product from questionable sources, and cost cutting in quality control by gray marketeers. *See, e.g., Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1166, 1176 (S.D.N.Y. 1984).

trademark could have been entirely destroyed by the importation of foreign-purchased goods whose quality and contents were beyond its control." *Id.*, at p. A-6.

Based on this analysis, the court of appeals concluded that "where the American trademark owner is a wholly-owned and controlled subsidiary of the foreign manufacturer, neither of the *Katzel* rationales applies." *Id.* at pp. A-6 to A-7. As discussed below, this holding is based on a misinterpretation and misapplication of not only *Katzel*, but other Supreme Court cases addressing the resale of "genuine goods." In addition, the court ignores the primary holding in *Katzel* which nondiscriminatorily grants trademark owners territorial rights. Moreover, neither of the *Katzel* rationales espoused by the court of appeals requires that the U.S. markowner be independent from the foreign manufacturer to obtain relief under the trademark laws, and, in fact, *both* rationales squarely apply to the case at bar.

Prior to *Katzel*, courts refused to protect U.S. trademark owners from parallel imports of genuine goods obtained from the foreign manufacturer. A series of cases,[15] embracing what is sometimes referred to as the "universality" principle, had held that if a trademark were lawfully affixed to merchandise in one country, the merchandise would lawfully carry that mark wherever it went and could not be deemed infringing. The "universality" doctrine is directly related to the "exhaustion doctrine" which states that trademark rights are exhausted once the trademarked goods have been placed into the stream of commerce. *See, e.g.*, 3A R. Callmann, *supra*, § 21.17, at 21-74. In *Katzel*, this Court rejected these doctrines, and established the "territoriality" principle which recognizes that

> a trademark has a separate legal existence under each country's laws, and that its proper lawful function is not necessarily to specify the origin or manufacturer of a good (although it may incidentally do that), but rather to symbolize the domestic goodwill of the domestic markholder so that the consuming public may rely with an expectation of consis-

---

[15] *See, e.g., Fred Gretsch Mfg. Co. v. Schoening*, 238 F. 780 (2d Cir. 1916); *Katzel*, 275 F. at 539; *Apollinaris Co. v. Scherer*, 27 F. 18 (C.C. S.D.N.Y. 1886); *see also* Derenberg, *Territorial Scope and Status of Trademarks and Goodwill*, 47 Va. L. Rev. 753 (1961).

> tency on the domestic reputation earned for the mark by its owner, and the owner of the mark may be confident that his goodwill and reputation (the value of the mark) will not be injured through the use of the mark by others in domestic commerce.

Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1171-72 (S.D.N.Y. 1984) (and cases cited therein). *See also* 1 J. McCarthy, *Trademarks and Unfair Competition* § 16:16B, at 763 (2d ed. 1984).

The principle of "territoriality" essentially denotes that the theories of "universality" and "exhaustion" do not apply in the *international* context because any contrary interpretation would *always* defeat a mark owner's ability to enforce his rights (and protect his mark's goodwill) in one country if goods bearing his mark were sold in another country. *See* Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 Wash. L. Rev. 433, 457 (1982). Indeed, as one court has noted,

> The universality principle [is] flawed in several related aspects. First, it [fails] to recognize that legal rights within one sovereignty are creations of that sovereignty's laws. The establishment by A of legal rights to exclusivity in one country could obviously not satisfactorily be squared with B's establishment of exclusive rights in a second country, if either right (much less if both) were thought to extend across the world universally . . . [¶] A second flaw, an outgrowth of the first, is the failure to recognize that, within one country, a mark may represent a factually different goodwill from that which the mark signifies elsewhere.

Osawa, 589 F. Supp. at 1172-73. *See also Original Appalachian*, 816 F.2d at 76 (Cardamone, J, concurring); *Weil Ceramics*, 618 F. Supp. at 704-714; *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 548 F. Supp. 1063, 1069-1073 (E.D.N.Y. 1982), *rev'd on other grounds*, 719 F.2d 42 (2d Cir. 1983).

At the heart of the "territoriality" doctrine is the concept of "separate and independent goodwill." This phrase does not refer to *corporate* independence, but rather, it designates the distinct goodwill which a domestic markholder creates by its many U.S. activities promoting and standing behind the mark. *Katzel*, 260 U.S. at 692; *Osawa*, 589 F. Supp. at 1174; *Weil Ceramics*, 618 F. Supp. at 710-12. It is not anomalous then,

> that a mark on an identical product may represent a separate and independent goodwill in different countries . . . The difference in the goodwill is determined by ascertaining the person who stands behind the product and insures its quality in the United States. . . . If . . . it is the United States markholder, then there is a distinct goodwill.

Weil Ceramics, 618 F. Supp. at 710. *See also Osawa*, 589 F. Supp. at 1174.

The "territoriality" principle comports with the commercial reality that when a U.S. markholder undertakes goodwill-producing activities, such as advertising, quality control and warranty service in the U.S., and thereby establishes separate and independent goodwill for the mark in the U.S., the allowance of parallel importation and sale of gray market goods creates a likelihood of confusion concerning source, sponsorship and product backing, and deprives the U.S. markowner of the ability to control product reputation.[16] The two recent and exceptionally thorough district court decisions in *Osawa* and *Weil Ceramics*, *supra*, barring gray market sales under sections 1114 and 1125 of the Lanham Act, demonstrate the wisdom of this Court's territoriality principle.[17]

---

[16] The court of appeals' refusal to recognize NECEL's territorial U.S. trademark rights not only conflicts with *Katzel*, but violates international law binding on the United States which firmly establishes *Katzel's* "territoriality principle" of trademark rights. *See* Paris Convention for the Protection of Industrial Property, March 20, 1883, *as revised*, art. 6, *quarter*, 21 U.S.T. 1583, 24 U.S.T. 2140, T.I.A.S. No. 6923, 7727 to which the U.S. is a signatory. *See also Osawa*, 589 F. Supp. at 1172; *Weil Ceramics*, 618 F. Supp. at 705 n.1.

[17] The plaintiff in *Osawa* was the U.S. owner of the "MAMIYA" mark and the exclusive U.S. distributor of Japanese-manufactured Mamiya cameras. The defendant purchased genuine "MAMIYA"-marked cameras overseas and sold them in the U.S. Based on findings that the plaintiff advertised, offered rebates, held customer seminars, took care in selecting retailers, exercised caution in inspecting and handling the product, kept extensive inventories, and provided free warranty service, the *Osawa* court concluded that the "MAMIYA" mark carried goodwill in the U.S. marketplace "separate and distinct from the goodwill emanating from the branded goods themselves." *Osawa*, 589 F. Supp. at 1166, 1174. This finding was made despite the fact that plaintiff shared a corporate affiliation with the foreign manufacturer of the gray market products. *Id.* Relying on evidence that some

Decisions such as *Osawa* and *Weil Ceramics* are fundamentally sound applications of the Lanham Act. Where quality control is a part of the U.S. markowner's distribution process, gray market distribution through different quality control channels creates a likelihood of confusion due to potentially different product quality, and deprives the U.S. markholder of the ability to control quality and reputation. Where the U.S. markowner backs the product with warranty service, gray market sales create likelihood of confusion as to who stands behind the product in the U.S. In a very real sense, when the U.S. markowner engages in these and other goodwill-producing activities in the U.S., gray market goods cannot be considered "genuine" when sold *in the U.S.*, because they are offered independently of the quality control, warranty and other marketing and service activities which are integral parts of the U.S. markowner's truly "genuine" product.[18]

---

customers had turned to plaintiff for warranty service and rebates on gray market cameras, and reasoning that customer confusion would also result from price disparities between legitimate and gray market cameras, the *Osawa* court found a likelihood of confusion caused by gray market sales. *Id.* at 1169. Citing *Katzel*, *supra*, the court held that plaintiff was likely to succeed on the merits and granted a preliminary injunction. *Id.* at 1170-71.

The plaintiff in *Weil Ceramics* was the U.S. owner of the "Lladro" mark and the U.S. distributor of Lladro porcelain manufactured by Lladro, S.A. of Spain. Plaintiff and the foreign manufacturer, Lladro, S.A., also shared a common corporate parent. Nonetheless, the *Weil Ceramics* court found that the Lladro mark had separate and independent goodwill in the U.S. due to plaintiff's quality control, advertising, promotion and warranty service. *Weil Ceramics*, 618 F. Supp. at 711-13. The court concluded that "there can be no dispute that defendants' identical ["Lladro"-marked] products cause confusion as to the entity which stands behind the product." *Id.* at 713. The court granted summary judgment for plaintiff on the trademark infringement claims.

[18] Although the term "genuine" is frequently used to refer to any legitimately labeled product, foreign or domestic, it makes more sense and is more consistent with the "territoriality" principle to say that whether goods are "genuine" must be determined within territorial borders in light of the U.S. markholder's goodwill-producing activities. *See Original Appalachian*, 816 F.2d at 73. The suggestion that the "genuineness" of the product should be determined by the existence *vel non* of a corporate affiliation between the U.S. markowner and foreign

Thus,

> The relationship of different markholders does not, in and of itself, preclude them from developing independent goodwills in the same mark. What must be determined is whether the United States markholder developed the goodwill of the product in the United States or whether it merely has relied upon the mark's international goodwill.

Weil Ceramics, 618 F. Supp. at 711 (emphasis added). *See also Osawa*, 589 F. Supp. at 1165. Just as the existence of a corporate affiliation between the U.S. markowner and the foreign manufacturer has no logical relationship to whether the U.S. markowner has established distinct U.S. goodwill for the mark, it has nothing to do with the likelihood of confusion caused by gray market sales. As the courts in *Osawa* and *Weil Ceramics* recognized, and as the evidence and district court findings in this case make so clear, the confusion caused by gray marketing can occur irrespective of corporate affiliation. And where there is a likelihood of confusion, the Lanham Act provides relief.

Against this background, the court of appeals' argument that *Katzel* would not have been decided the same way had the plaintiff been affiliated with the foreign manufacturer has no support in the case itself or settled trademark law. In fact, the principles set forth in both *Katzel* and the Ninth Circuit's opinion are equally applicable to the situation presented by the facts here.

First, as with the foreign manufacturer in *Katzel*, after the assignment of the mark, NEC Corporation could not have come to the United States and have used its old marks as applied to semiconductors in competition with NECEL.[19] Indeed, the court of appeals expressly notes that NEC Corporation *could not* come

---

manufacturer ignores the most important point, namely, the commercial reality of how the trademarked product is marketed, quality-controlled and backed by the U.S. markowner. *Id.*

[19] Although the Ninth Circuit appears to have been persuaded by the fact that the plaintiff in *Katzel* had *purchased* the trademark from the foreign manufacturer, Justice Holmes expressly states that the restrictions imposed upon the seller by way of the sales agreement "follows from the statute authorizing *assignments*." 290 U.S. at 691 (emphasis added). Thus, the fact that NECEL obtained the "NEC" mark by way of an assignment rather than a sale has no significance as far as *Katzel* is concerned.

to the U.S. and sell its semiconductors under the "NEC" mark *unless* NECEL "[consents] to such marketing" or "[returns] the trademark rights to the parent." App. A, *infra*, at p. A-7. *See Katzel*, 290 U.S. at 691; App. A, *infra*, at p. A-5.

Second, like the plaintiff in *Katzel*, NECEL has become the true source of the trademarked goods in the U.S. The evidence shows, and the district court found, that the "NEC" mark as applied to semiconductors sold in the U.S. indicates NECEL as the origin of the goods. App. B, *infra*, at A-18. Thus, the value of NECEL's trademark *is* being "entirely destroyed by the importation of foreign-produced goods whose quality and contents [are] beyond its control." App. A., *infra*, at p. A-6.

Furthermore, the Ninth Circuit's dismissal of the *Katzel* quality control rationale on the facts of this case focuses exclusively on quality control in the *manufacturing* of the product. The court completely overlooks the evidence and district court findings concerning the importance of quality control in the *distribution* of semiconductors. The voluminous evidence below, including NECEL's proprietary quality control procedures, established that inspection, storage environment, handling, packaging, repackaging and other procedures in *distribution* affect the quality and reliability of semiconductors. This quality control is an integral part of the product. The district court found that NECEL's "strict quality control" enables NECEL to "guarantee the excellence of the product" and that the goodwill associated with "NEC"-trademarked semiconductors in the U.S. results from NECEL's quality control, among other things. App. B, *infra*, at p. A-19.

The Ninth Circuit's opinion will permit multiple uncontrolled parallel importation and distribution channels, thereby depriving NECEL of the ability to control the quality of (and hence the goodwill associated with) semiconductors sold in the U.S. under NECEL's "NEC" trademark. This result conflicts not only with the quality control rationale of *Katzel*, but also with the Second Circuit's decision in *El Greco Leather Products Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986), *rev'g* 599 F. Supp. 1380 (E.D.N.Y. 1984), holding that the unauthorized sale of goods manufactured by authority of the trademark owner, in a manner which deprives the trademark owner of the right to control quality, is actionable under Section 32 of the Lanham Act, 15 U.S.C. § 1114.

Finally, although essentially ignored by the Ninth Circuit, the *Katzel* opinion is primarily based on Justice Holmes' holding that the plaintiff's mark indicated "in law, and, it is found, by public understanding, that the goods come from the plaintiff although not made by it." 260 U.S. at 692. While acknowledging that the "NEC" mark for semiconductors is "associated" with NECEL in the U.S. (App. A, *infra*, at p. A-7), the court of appeals completely overlooks the evidence and district court findings establishing that the "NEC" mark on semiconductors in the U.S. denotes NECEL's unique sponsorship, service, quality control and backing in this country, all of which are inseparable components of the product. App. B, *infra*, at pp. A-18, A-21 to A-23. This second *Katzel* rationale applies even more strongly to the case at bar than it did in *Katzel*, where the plaintiff merely imported foreign-manufactured goods. NECEL currently manufactures twenty-five percent of its product in the U.S.

In addition to its erroneous reading of *Katzel*, the court of appeals also misapplied two other Supreme Court decisions concerning the resale of "genuine goods." Concluding that trademark law does not apply to resale of "genuine goods," the court cites the decisions in *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924) and *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947).[20]

---

[20] Aside from *Prestonettes* and *Champion* the only authority cited below for the overly broad principle that Sections 32 and 43 of the Lanham Act do not reach genuine goods are: (1) *Monte Carlo Shirt, Inc. v. Daewoo Int'l (Amer.) Corp.*, 707 F.2d 1054 (9th Cir. 1983), which applied California law (*not* the Lanham Act) in a factually distinguishable non-gray market context, and which has been criticized as inconsistent with general principles of trademark law (*see* 3A R. Callmann, *Unfair Competition, Trademarks and Monopolies* § 21.13, at 103 (Cum. Supp. 1986)); (2) *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir.), *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757), which devoted one cryptic paragraph to a discussion of Section 42 of the Lanham Act, 15 U.S.C. § 1124—a section not even involved in this case; and (3) *Diamond Supply Co. v. Prudential Paper Prods. Co.*, 589 F. Supp. 470, 475 (S.D.N.Y. 1984), a non-gray market case where the plaintiff-markowner had consented to the defendant's conduct.

Ironically, *Champion* and *Prestonettes* squarely hold that federal trademark law does apply to the resale of genuine goods. Both decisions affirmed lower court decrees designed to prevent confusion and protect the markowner's goodwill in connection with resale of genuine goods. In *Prestonettes* the Supreme Court affirmed a district court decree requiring defendant to label the product's container, "Prestonettes, Inc., *not connected with Coty*, states that the contents are Coty's—(giving the name of the article) *independently* rebottled in New York." 359 U.S. at 367 (emphasis added). In *Champion* the Supreme Court affirmed a circuit court decree imposing a similar labelling requirement. 331 U.S. at 128 n.3. In both cases the Supreme Court held that the labelling injunctions were sufficient (1) to prevent customer confusion and (2) to assure that customer approbation arising from any quality problems would be borne principally by the defendants, not the markowners. 264 U.S. at 368-69; 331 U.S. at 129-30.[21]

V

The Court of Appeals' Holding That U.S. Markowners Affiliated with Foreign Manufacturers Are *Per Se* Barred From Lanham Act Relief Against Gray Marketeering Directly Conflicts with the Recent Second Circuit Opinion in *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*

The court of appeals' holdings that the Lanham Act does not reach the sale of gray market goods, and that even if it does, NECEL is not entitled to relief from gray marketeering under the trademark laws because NECEL is a subsidiary of NEC Corporation, is in direct conflict with the Second Circuit Court of Appeals decision in *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68 (2d Cir. 1987), *aff'g* 640 F.

---

[21] In the lower courts, NECEL suggested the possibility of remedies to prevent confusion short of barring Cal ABCO's sale of the product. By overlooking the law and erroneously holding that trademark law simply does not reach resale of genuine goods, the panel has foreclosed the possibility of any relief under the Lanham Act to prevent the customer confusion caused by Cal ABCO's use of NECEL's mark. Such a result conflicts with *Katzel*, *Prestonettes* and *Champion*. At a minimum, this case should have been remanded for consideration of alternative remedies.

Supp. 928 (S.D.N.Y. 1986). *Original Appalachian* specifically holds that the owner of a U.S. trademark may prevent the sale of gray market goods in the United States under Section 32 of the Lanham Act, 15 U.S.C. § 1114, and that corporate affiliation is not dispositive.

In *Original Appalachian*, plaintiff, a U.S. trademark owner, sought a permanent injunction to prevent the importation of gray market "Cabbage Patch Kid" dolls bearing the owner's trademark but manufactured abroad under a restrictive license from plaintiff. 816 F.2d at 70. Pursuant to the terms of the license, the foreign manufactured dolls were to be sold in Spain, and were not intended for sale in the the U.S. *Id.* Defendant purchased the dolls in Spain, imported them into the U.S., and sold them under plaintiff's trademark. *Id.*

In addition to the fact that the dolls defendant was selling were not intended for sale in the U.S., both the district court and the court of appeals found that defendant's dolls differed from those being sold by plaintiff. All of the dolls made and sold by plaintiff in the U.S. are accompanied by an "adoption service" developed by plaintiff.[22] The district court found that this "adoption process" was "an important element of the mystique of the dolls which has substantially contributed to their enormous popularity and commercial success." 816 F.2d at 70. Because defendant's dolls contained adoption papers and birth certificates that were written in Spanish, plaintiff's adoption processing centers in the U.S. did not provide this service to the purchasers of the foreign made dolls. *Id.*

Based on these findings, the district court concluded, and the court of appeals affirmed, that plaintiff's domestic goodwill was being damaged by consumer confusion. 816 F.2d at 73. The court of appeals expressly found that through plaintiff's and its licensee's efforts, including investments in advertising, etc., the U.S. trademark and product had developed its own goodwill in this

---

[22] Under this process, the dolls are sold with "birth certificates" and "adoption papers" to be filled out by the "parent" or owner of the doll. The adoption papers are then returned to plaintiff, and the information is entered into plaintiff's computer. On the first anniversary of the "adoption," the owner receives a "birthday card" from plaintiff. 816 F.2d at 70.

country [816 F.2d at 71, 73], and therefore defendant's sale of the Spanish dolls in the U.S. infringed on plaintiff's trademark in violation of Section 32 of the Lanham Act, 15 U.S.C. § 1114. 816 F.2d at 73. Indeed,

> There is a very real difference in the [Spanish] product itself—the foreign language adoption papers and birth certificate, coupled with the United States fulfillment houses' inability or unwillingness to process the [Spanish doll] adoption papers or mail adoption certificates and birthday cards to [Spanish] doll owners, and the concomitant inability of consumers to "adopt" the dolls. It is this difference that creates the confusion over the source of the product and results in a loss of [plaintiff's] goodwill.

Id. On these findings, the court of appeals affirmed the district court's grant of a permanent injunction.

The court specifically noted that even though the Spanish dolls bore plaintiff's trademark, they were not truly "genuine" goods because of the differences noted above. Therefore, the case was "closer to *Osawa*" since plaintiff's goodwill was being harmed by the consumer confusion generated by defendant's sale of the Spanish dolls. *Id.*

Moreover, the court of appeals in *Original Appalachian* rejected the defendant's argument that there could be no infringement because plaintiff owns and controls the trademark on the Spanish dolls, holding that "the fact that a single entity owns the trademark worldwide is not dispositive." 816 F.2d at 73. In short, the court recognized that evidence of confusion is exactly that—evidence of confusion—regardless of corporate affiliation, etc., and since the standard for confusion under the Lanham Act is broad, the type of confusion engendered by gray marketeering allows U.S. markowners to seek relief under the Lanham Act.

The same standards should have been applied to the present case. Like the Spanish dolls, the semiconductors sold by NEC Corporation overseas are *not* intended for sale in the U.S. Moreover, the availability of the "adoption process," found to differentiate the domestic dolls from the foreign dolls, is analogous to the "design in," warranty, and quality control services NECEL provides with the semiconductors it sells in the U.S. The importance of these services cannot be overstated. This Court has held that a product *with* its attendant services is a different, and often better,

"product" than the naked, underlying product itself. *See Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 55 (1977) (stating that the availability and quality of support services affect the goodwill and competitiveness of a product); *Broadcast Music, Inc. v. CBS, Inc.*, 441 U.S. 1, 21-22 (1978) (finding that blanket license to copyrighted musical compositions, which consisted of individual compositions *plus* "aggregating service," is a different product from individual compositions themselves). The semiconductors Cal ABCO sells do not come with these services and consumer confusion occurs as a result. *See, e.g.*, App. E, *infra*, at pp. A-52 to A-53 (consumer "confused" when NECEL declined warranty on Cal ABCO-furnished "NEC" semiconductor); ER 51:1930 (consumer turned to NECEL for technical support and assistance on Cal ABCO-supplied "NEC"-marked semiconductor). Where, as here, gray marketeering causes a likelihood of confusion, mere corporate affiliation between the domestic markowner and the foreign manufacturer should be completely extraneous to the availability of Lanham Act relief.

The Ninth Circuit's holding that the Lanham Act does not apply to gray market "NEC" semiconductors sold by Cal ABCO because of the corporate affiliation between NECEL and NEC Corporation cannot be squared with the Second Circuit's result in *Original Appalachian*, and therefore review by this Court is necessary.

CONCLUSION

The petition for writ of certiorari should be granted.

Respectfully submitted,

ROBERT B. PRINGLE
Counsel of Record
STEVEN L. HOCK
ROBERT A. WEIKERT
THELEN, MARRIN, JOHNSON & BRIDGES
Two Embarcadero Center
San Francisco, CA 94111
Telephone: (415) 392-6320
Counsel for Petitioner

July 17, 1987

Appendix A

United States Court of Appeals
For the Ninth Circuit

No. 86-6300
D.C. No. CV 85-1344-CBM

NEC Electronics Inc.
Plaintiff/Counter-Defendant/Appellee,

v.

CAL Circuit Abco, Alex Sandel,
Jason Barzilay, Benny Alagem,
Defendant/Counter-Claimant/Appellant.

No. 86-6456
D.C. No. CU 85-1344-CBM

NEC Electronics Inc.
Plaintiff/Counter-Defendant/Appellee,

v.

Alex Sandel, Jason Barzilay,
Benny Alagem, Maury Friedman,
Defendant,

NEC Corporation and NEC Electronics Inc.,
Counter-Defendant,

and

CAL Circuit Abco, Inc., aka CAL-Abco,
Defendant/Counter-Claimant/Appellant.

Argued and Submitted
December 1, 1986—Pasadena, California

[Filed February 24, 1987]

Appeal from the United States District Court
for the Central District of California
Consuelo B. Marshall, District Judge, Presiding

OPINION

SNEED, Circuit Judge:

A Japanese manufacturer of computer chips, NEC Corporation (NEC-Japan), assigned its United States trademark rights to its California Subsidiary, NEC Electronics (NEC-USA). Defendant, CAL Circuit Abco (Abco), engages in "parallel importation" of NEC-Japan's chips: it buys them abroad at the lower prices there prevalent, and then imports and sells them here. NEC-USA sued for trademark infringement under the Lanham Act. On pre-trial motions, the district court held for plaintiff and enjoined defendant from selling any more of the foreign-purchased chips. We denied defendant's emergency motion for a stay, but we granted expedited appeal and now reverse.

I.
FACTS

NEC-Japan is one of the world's largest manufacturers of computer chips, reporting sales of nearly $2 billion dollars in 1985. NEC-USA is a wholly-owned subsidiary whose control remains primarily vested in the parent; NEC-Japan directors constitute a majority of NEC-USA's board of directors. NEC-USA manufactures some computer chips at its own facilities in the United States, but imports ninety percent of the NEC chips it sells from the parent company.

In 1983, NEC-Japan, owner of the trademark "NEC" in this country and elsewhere, assigned all rights to the mark in the United States to NEC-USA, and duly registered this assignment with the federal Parent and Trademark office. NEC-Japan continues to market its computer chips outside the United States, evidently at prices substantially lower than those charged here by NEC-USA. Defendant Abco buys these so-called "grey market" chips from a foreign source; imports them, and sells them here in direct competition with NEC-USA. The parties have stipulated that Abco's chips are genuine NEC products.

NEC-USA sued Abco for trademark infringement under sections 32 and 43 of Lanham Act, 15 U.S.C. §§ 1114, 1125.[1] NEC-USA alleges that Abco's use of the "NEC" trademark confuses consumers who believe that Abco's sales are authorized by or connected to NEC-USA. The evidence indicates, and the district court found, that some purchasers from Abco mistakenly thought their chips were protected by NEC-USA's servicing and warranties. Based on consumer confusion of this sort, the court granted NEC-USA's motions for partial summary judgment and for a preliminary injunction. Abco appeals both orders.

II.
JURISDICTION AND STANDARD OF REVIEW

The district court certified its grant of partial summary judgment for immediate appeal, and we accepted jurisdiction under 27 U.S.C. § 1292(b). We have jurisdiction to review the issuance of a preliminary injunction under 27 U.S.C. § 1292(a)(1).

Our review of summary judgments is de novo. Our review of preliminary injunctions is more deferential: we will uphold the order unless the lower court applied incorrect law, relied on clearly erroneous factual findings, or otherwise abused its discretion. *United States v. Akers,* 785 F.2d 814, 817-18 (9th Cir.), *cert. denied,* 107 S. Ct. 107 (1986).

III.
ANALYSIS

Section 32 of the Lanham Act provides the registered owner of a trademark with an action against anyone who without his consent uses a "reproduction, counterfeit, copy, or colorable imitation" of the mark in such a way as "is likely to cause

---

[1] In its complaint NEC-USA included several state law claims as well. Abco counterclaimed under federal antitrust law and various state laws, adding NEC-Japan as counter-defendant. NEC-USA moved for partial summary judgment on its Lanham Act claims and for a preliminary injunction. The district court considered these motions together, and only they are before this court on appeal.

confusion, or to cause mistake, or to deceive."[2] Similarly, section 43(a) provides for civil liability if goods are marketed bearing "a false designation of origin."[3] The issue before us is whether a United States subsidiary that sells certain goods in this country can sue under these provisions if another company, such as Abco, buys the parent's indentical goods abroad and then sells them here using the parent's true mark. We think not.

Trademark law generally does not reach the sale of genuine goods bearing a true mark even though such sale is without the mark owner's consent. *See Monte Carlo Shirt, Inc. v. Daewoo Int'l*

---

[2] Any person who shall, without the consent of the registrant—

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive, or

(b) reproduce, conterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.

shall be liable in a civil action by the registrant for the remedies hereinafter provided.

15 U.S.C. § 1114(1).

[3] Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or likely to be damaged by the use of any such false description or representation.

15 U.S.C. § 1125(a).

(Amer.) Corp., 707 F.2d 1054, 1057-58 & n.3 (9th Cir. 1983); *Diamond Supply Co. v. Prudential Paper Prods. Co.*, 589 F. Supp. 470, 475 (S.D.N.Y. 1984). Once a trademark owner sells his product, the buyer ordinarily may resell the product under the original mark without incurring any trademark law liability. *See Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368-69 (1924). The reason is that trademark law is designed to prevent sellers from confusing or deceiving consumers about the origin or make of a product, which confusion ordinarily does not exist when a genuine article bearing a true mark is sold. *See Prestonettes*, 264 U.S. at 368-69; *Monte Carlo* 707 F.2d at 1058. These principles, without more, would control this case were it not for the Supreme Court's decision in *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923).

Katzel involved cosmetics that, like NEC computer chips, were manufactured overseas, purchased abroad, and sold here under the manufacturer's trademark without the consent of a United States company which had obtained the American trademark rights and which also imported the goods into this country. The Second Circuit had held, following prior case law, that plaintiff had no claim for trademark infringement because the goods were genuine. *See* 275 F. 539, 540 (2d Cir. 1921). The Supreme Court reversed. NEC-USA argues that *Katzel* controls our decision here.

We disagree. Parsing Justice Holmes's characteristically laconic opinion, we discern two rationales for the holding in *Katzel*. First, the American company that acquired the mark had made an arm's-length contract with the manufacturer—it had paid "a large sum" for the trademarks and the goodwill associated with them, 260 U.S. at 690—which was clearly intended to prohibit the manufacturer from selling its goods directly in this country. "After the sale the French manufacturers could not have come to the United States and have used their old marks in competition with the plaintiff." *Id.* at 691. The Court was not prepared to permit the manufacturer to "evade" this restriction by selling to middlemen abroad for sale in the United States, thus to deprive the American mark owner of the entire benefit of its bargain. *Id.* at 691-92.

Second, because the manufacturer had forgone all its rights to its trademark in this country, the American owner of that mark now had complete control over and responsibility for the quality of goods sold under that mark. *See Id.* at 692. Plaintiff American owner might have chosen to sell a different product under the assigned mark; the foreign producer might have begun selling an inferior product abroad. With respect to sales in this country, plaintiff had become the true source of the trademarked goods, and the value of plaintiff's trademark could have been entirely destroyed by the importation of foreign-purchased goods whose quality and contents were beyond its control. It was thus "not accurate" to say that a parallel importer's use of the mark would "truly indicate[ ] the origin of the goods."*Id.*

Both these rationales presuppose the American owner's real independence from the foreign manufacturer, and courts interpreting *Katzel* have repeatedly amphasized this factor. The Supreme Court itself has characterized *Katzel* as a case in which the defendant distributor sought to market goods "of one make under the trade mark of another." *Champion Spark Plug Co. v. Sanders,* 331 U.S. 125, 128 (1947). This court has noted that *Katzel* "did not involve the plaintiff's 'genuine' goods but rather goods produced by the owner of plaintiff's trademark in a foreign country," and that in *Katzel* "the plaintiff could [have] suffer[ed] from inability to control the quality of the foreign producer's goods." *Monte Carlo,* 707 F.2 at 1057 n.3.

Finally, the Second Circuit, in a recent grey-marketeering case where the American mark holder was (like NEC-USA) a subsidiary of the foreign manufacturer, noted that the plaintiff in *Katzel* was "an independent domestic trademark owner [which had] purchased the U.S. trademark rights," and limited *Katzel* to its "special facts." *Olympus Corp. v. United States,* 792 F.2d 315, 321-22 (2d Cir.), *petition for cert. filed,* 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757). That is, the *Olympus* court concluded that section 42 of the Lanham Act, 15 U.S.C. § 1124, barring importation of goods that "copy or simulate" a trademark, did not apply to genuine goods except in cases presenting the same "equities" as *Katzel, Id.* We think this conclusion correct for sections 32 and 43 of the Lanham Act as well. Where the

American trademark owner is a wholly-owned and controlled subsidiary of the foreign manufacturer, neither of the *Katzel* rationales applies.

Under these circumstances, NEC-Japan would not be "evading" any terms of its trademark assignment to NEC-USA by selling its computer chips to American distributors abroad. NEC-USA is not losing any benefits for which it bargained and which it might have legitimately expected NEC-Japan not to circumvent. In fact, NEC-Japan may at any time begin marketing its products here on its own, simply by causing NEC-USA to consent to such marketing or to return the trademark rights to the parent. Moreover, because NEC-Japan and NEC-USA are commonly controlled, there is no danger to the latter in being unable to control the quality of the former's products. In this situation, we cannot say that Abco is selling goods "of one make under the trade mark of another." *See Champion Spark Plug*, 331 U.S. at 128. Nor is it inaccurate to say that the mark "NEC" on Abco's products truly designates the chips as having been manufactured under the control of NEC-Japan, even if the mark has become associated here with NEC-USA. If, as NEC-USA alleges, Abco sales agents mislead their buyers about the availability of NEC-USA servicing, then Abco may be liable in contract or tort, but not in trademark.[4]

---

[4] NEC-USA may also have a claim under the Tariff Act. After the Second Circuit issued its opinion in *Katzel*, but before the Supreme Court reversed it, Congress responded by passing section 526 of the Tariff Act, directing Customs to bar importation of goods bearing a trademark identical to a United States mark without the American mark owner's consent. *See* 19 U.S.C. § 1526(a), (b). The section provides for private actions by the American trademark owner as well. *See* 19 U.S.C. § 1526(c); *Olympus*, 792 F.2d at 320; *Perry v. American Hecolite Denture Corp.*, 78 F.2d 556, 559 (8th Cir. 1935) (mark owner may sue parallel importer under this section for injunction and damages).

Our conclusion today, however, is reinforced by the fact that the Customs Service has for decades made an exception to section 526 in cases where the American trademark owner and the foreign producer are under common control. Customs regulations expressly include the parent/subsidiary relationship as one of common control. *See* 19 C.F.R.

If NEC-Japan chooses to sell abroad at lower prices than those it could obtain for the identical product here, that is its business. In doing so, however, it cannot look to United States trademark law to insulate the American market or to vitiate the effects of international trade. This country's trademark law does not offer NEC-Japan a vehicle for establishing a worldwide discriminatory pricing scheme simply through the expedient of setting up an American subsidiary with nominal title to its mark.

The grant of partial summary judgment is REVERSED, the preliminary injunction VACATED, and the case REMANDED for further proceedings on the remaining claims.

---

§ 133.21(c)(2) (1986). Because of the recent expansion in grey-marketeering, these regulations have lately been challenged in several courts. The results are mixed. *Compare Olympus* (upholding the regulations) *and Vivitar Corp. v. United States,* 761 F.2d 1552 (Fed. Cir. 1985) (five-judge panel) (same), *cert. denied,* 106 S. Ct. 791 (1986), *with Coalition to Preserve the Integrity of American Trademarks v. United States,* 790 F.2d 903 (D.C. Cir.) ("*COPIAT*") (invalidating the regulations), *cert. granted,* 107 S. Ct. 642 (1986). This court has not yet ruled on the matter. *See United States v. Eighty-Nine (89) Bottles of "Eau de Joy,"* 797 F.2d 767, 770 n.2 (9th Cir. 1986).

If in *COPIAT,* the Supreme Court upholds the challenged regulations, then our holding today will be consistent: foreign producers will not be able to accomplish under trademark law what they cannot do under the Tariff Act. But even if the Court invalidates the regulations, our decision is still not inconsistent: we will simply have obliged plaintiff to proceed with its remedies under the Tariff Act, which, whatever their limits, Congress provided precisely in order to add to—not to replicate—the protections available under trademark law.

Appendix B

United States District Court
Central District of California

Case No. CV 85-1344 CBM

NEC Electronics Inc.,
Plaintiff,

vs.

Cal Circuit ABCO, Inc., et al.,
Defendant.

Cal Circuit ABCO, Inc., a California corporation,
Counterclaimant,

vs.

NEC Corporation, a foreign corporation and
NEC Electronics Inc., a California corporation,
Counterdefendants.

MEMORANDUM ORDER GRANTING PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION AND PARTIAL SUMMARY JUDGMENT

[Filed Aug. 15, 1986]

This matter is before the Court on plaintiff NEC Electronics, Inc.'s motions for a preliminary injunction enjoining defendant Cal Circuit ABCO from importing and selling NEC trademarked electronic components in the United States and a partial summary judgment that defendant's sale in the United States of electronic components bearing the identifying mark 'NEC' constitutes trademark mark infringement under 15 U.S.C. §§ 1114(1) and 1125. A hearing was held on June 16, 1986 before the Honorable Consuelo B. Marshall, United States District Court Judge, presiding. The Court having reviewed the pleadings, opposition, reply, all exhibits presented by the parties, all pertinent authority and having heard the arguments of counsel, hereby issues the following memorandum order.

I. BACKGROUND

Plaintiff NEC Electronics, Inc. ("NEC USA") is a California corporation with its principal place of business in Mountain View, California. It is a wholly owned subsidiary of NEC Corporation of Japan ("NEC-Japan"), a foreign corporation with its principal place of business in Japan. NEC-Japan, d/b/a Nippon Electric Co., Ltd., Nippon Denki Kabushiki Kaisha, registered the trademark "NEC" with the United States Patent and Trademark Office under registration nos. 96,056 and 1,0703878. On or about November 30, 1983, NEC-Japan assigned the rights to its trademark to NEC-USA.

NEC-USA is engaged in the business of manufacturing, importing, marketing, distributing and selling electronic component parts bearing the NEC mark. The electronic components involved in this action are semiconductor memories, microprocessors, read-only memories, random-access memories, integrated circuits, vacuum fluorescent displays, tantalum capacitors, discrete semiconductors and printed circuit board products. These components are integrated into the production of various consumer and industrial equipment, including but not limited to, computers, automobiles, calculators and watches.

Defendant Cal Circuit ABCO is also a California corporation with its principal place of business in Woodland Hills, California. It is engaged in the parallel importation of NEC integrated circuits without an authorized franchise from NEC-USA. It competes in the sale of NEC integrated circuits with various companies in the United States, including authorized or franchised NEC-USA distributors.

The first amended complaint alleges six claims. The first claim for statutory trademark infringement under 15 U.S.C. § 1114 alleges that plaintiff received the assignment of the "NEC" mark from its parent company, NEC-Japan, on or about November 30, 1983. Said assignment was recorded in the United States Patent and Trademark Office on December 20, 1983. Plaintiff contends that subsequent to the recordation of its trademark, defendant, without plaintiff's consent, intentionally infringed upon the trademark by importing, distributing and advertising in interstate

commerce, electronic components which are similar or identical to that sold by plaintiff. Plaintiff contends that defendant's goods are not subject to their quality control inspections and testing procedures, and are not protected by plaintiff's warranties. This alleged infringement allegedly adversely effects the good will created by plaintiff in this country, and causes confusion amongst the consumers and general public, and causes irreparable injury and damage to plaintiff.

The second claim for false designation of origin and unfair competition under 15 U.S.C. § 1125 alleges that through plaintiff's extensive advertisement, promotions, and sale of its goods, the NEC trademark has become uniquely associated with the plaintiff, and that defendant's advertisement of its products which also bear the NEC trademark falsely designate their products as originating from plaintiff's. Such false designation allegedly deceives the trade, consumers and the general public into believing that plaintiff endorses or stands behind defendant's products or that plaintiff warrants the quality or guarantee of defendant's products.

Plaintiff also includes several pendent state claims, including, intentional interference with business relations and prospective advantage, unfair advertising, unfair competition, violation of the California Business and Professions Code § 14330.

Defendant also asserts a counterclaim against NEC-USA and its parent company, NEC-JAPAN, a foreign corporation with its principal place of business in Japan. In its counterclaim, defendant alleges that it purchases "genuine Japanese integrated circuits," from NEC-JAPAN, Hitachi, Toshiba, Fujitsu, Mitsubishi, and Oki and distributes its products to original equipment manufacturers throughout the United States. Defendant's first counterclaim for violation of § 1 of the Sherman Act and second counterclaim for § 3 of the Clayton Act alleges that counter-defendants, and other co-conspirators, have conspired amongst themselves to eliminate competition from competitors such as Cal ABCO by fixing the price at which NEC integrated circuits are sold; by coercing customers and prospective customers into refusing to deal with Cal ABCO; by preserving a horizontal worldwide allocation of territories for the sale and

distribution of NEC integrated circuits in order to protect each participant from competition in its designated territory. Defendant alleges that this conspiracy to stop the importation of genuine integrated ciruits manufactured by NEC-JAPAN and other Japanese manufacturers would result in the elimination of parallel importation of all Japanese integrated circuits and the destruction of such alternate suppliers of these products in the United States.

In the fifth counterclaim, defendants allege that NEC-USA's trademark is invalid because it was a sham transaction with no goodwill or other real interest transferred. Subsequent to the alleged transfer, defendant contends that NEC-Japan abandoned the assignment.

Defendant also alleges numerous state claims of *inter alia,* violations of the California Business Professions Code §§ 16720 et seq., unfair competition, interference with contractual relations, interference with prospective advantage, and defamation.

II. DISCUSSION

In order to obtain a preliminary injunction, "a party must show either 1) a likelihood of success on the merits and the possibility of irreparable injury, or 2) the existence of serious questions going to the merits and the balance of hardships tipping in its favor." *Apple Computer, Inc. v. Formula Intern, Inc.,* 725 F.2d 521, 523 (9th Cir. 1984); *e.g., Beltran v. Myers,* 688 F.2d 1317, 1320 (9th Cir. 1982).

1) PROBABILITY OF SUCCESS ON THE MERITS.

15 U.S.C. § 1114(1)(a) provides, in relevant part, that:

> "[a]ny person who shall, without the consent of the registrant—
>
> (a) use in commerce any reproduction, counterfeit, copy or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; . . .

* * *

shall be liable in civil action by the registrant for the remedies herein provided."

In order to prevail under this statute, plaintiff must show that: a) it owns the United States trademark for "NEC"; b) defendant used the mark in United Sates commerce without permission; and c) defendant's use is likely to cause consumer confusion. *Weil Ceramics & Glass, Inc. v. Dash,* 618 F.Supp. 700, 704 (D.N.J. 1985). The test for infringement of a registered trademark pursuant to 15 U.S.C. § 1114 is said to be similar to that for false designation of trademark pursuant to 15 U.S.C. § 1125 in that both preclude the use of another's trademark in a manner likely to confuse the public about the origin of the goods. *Intern. Order of Job's Daughters v. Lindeburg & Co.,* 633 F.2d 912, 917 (9th Cir. 1980); *see also New West Corp. v. NYM Co. of California,* 595 F.2d 1194 (9th Cir. 1979). Thus, the analysis for plaintiff's claims with respect to both statutes is substantially similar.[1]

a) Ownership of the Trademark.

The Lanham Trademark Act of 1946, 15 U.S.C. § 1501 *et seq.,* requires that a trademark assignment carry with it the assignment of goodwill which the trademark symbolizes in order to transfer title to the mark. 15 U.S.C. § 1060.[2] An assignment without goodwill, known as an assignment "in gross," does not transfer

---

[1] As this Court has denied plaintiff's request to file a second amended complaint to allow the scope of the instant litigation to include, amongst others, claims arising under 19 U.S.C. § 1526, and its counterpart 15 U.S.C. § 1124, this memorandum order will not address any of the arguments involving these claims.

[2] 15 U.S.C. § 1060 provides, in relevant part, as follows: "[a] registered mark or a mark for which application to register has been filed shall be assignable with the goodwill of the business in which the mark is used, or with that part of the goodwill of the business connected with the use of and symbolized by the mark, and in any such assignment it shall not be necessary to include the goodwill of the business connected with the use of and symbolized by any other mark used in the business or by the name or style under which the business is conducted."

any legal rights to the assignee. *Bourjois & Co. v. Katzel,* 260 U.S. 689 (1923). This circuit has specifically stated that "there are no rights in a trademark alone and that no rights can be transferred apart from the business with which the mark has been associated." *Mister Donut of America, Inc. v. Mr. Donut, Inc.,* 418 F.2d 838 (9th Cir. 1969).

This requirement that an assignment of a mark be accompanied by a transfer of goodwill is drived from the fundamental nature of the trademark, which is not a property right, but only a right appurtenant to an established business or trade in connection with which the mark is employed, and from the desire to protect the consuming public against confusion or deception. *Greenlon, Inc. of Cincinnati v. Greenlawn, Inc.,* 542 F.Supp. 890 (D.C.Ohio, 1982).

As this court stated in *Model Rectifier Corp. v. Takachiho International, Inc.,* 220 U.S.P.Q. 508, *aff'd,* 221 U.S.P.Q. 504 (1983), "[o]wnership of trademark rights in the United States as between a foreign manufacturer and its U.S. distributor is largely determined by the agreement between them. The assignment of U.S. trademark rights and associated goodwill by a foreign manufacturer to its exclusive distributor in the United States is normally valid and enforceable."

On November 30, 1983, NEC-Japan, the owner of the "NEC" mark which was registered with the United States Patent and Trademark Office under registration nos. 964,056 and 26,1977, assigned all rights, title and interest in and to said mark to NEC-USA. The assignment agreement specified the use of the mark for certain goods in exchange for "good and valuable consideration." The assignment was subsequently duly registered.

Defendant contends that the above transfer between NEC-Japan and its wholly owned subsidiary, NEC-USA, was an assignment in gross, and therefore NEC-Japan did not transfer any legal rights to its assignee. Defendant's arguments, however, do not survive close scrutiny. First, defendant contends that NEC-Japan continues to control the use of the mark. Defendant's exhibit 6 attached to Markey's declaration is a confidential manual produced by NEC-Japan entitled "NEC Corporate Iden-

tification System: Basic Rules & Regulations" which is a "guide on the correct visual expression of the NEC Mark, logotype and product names, which are the basic elements of the company's [corporate identification system]." This guide of "strict rules" was prepared for use by NEC-Japan and its "affiliated companies" worldwide" in order to "boost awareness and raise the level of NEC's corporate image in a unified manner around the world."

Plaintiff admits its adherence to the rules set forth in the manual, but contends that it applies to only the matters of form in reproducing the mark in order to prevent confusion to consumers and to ensure that the advertising is consistent with the trademark registration of the logo. Other than this manual, defendant has not produced any other documentation of NEC-Japan's "control" over its subsidiary.

Second, defendant points to the advertisements placed by NEC-Japan which promotes the trademark "NEC" without reference to any assignment of the trademark "NEC" to its wholly owned American subsidiary. Plaintiff concedes that these publications are circulated in the United States by its parent company, but argues that these adds are miniscule compared to the quantity of adds placed by them in various American publications, and furthermore argue that these adds operate to increase its goodwill.

Third, defendant argues that the goodwill associated with the "NEC" mark was not transferred to NEC-USA since the trademark "uPD" is a non-severable component of the trademark in question. Examination of the products listed in exhibit A to plaintiff's first amended complaint reveals that virtually all of the NEC products are preceded by "uPD."

Defendant's exh. 2 and 9 to Markey's declaration reveals that the trademark "uPD" and "NEC" was registered by NEC-Japan in the United States Patent Office. Defendant argues that this partial assignment is defective because an assignment that transfers a trademark with only portion of the goodwill of the assignor's business is invalid unless the goodwill constitutes a truly distinct and separate portion of the assignor's business.

In contrast, plaintiff argues that the "uPD" does not carry goodwill associated with the product, but instead is a part number for the product. Plaintiff's contends that the goodwill is associated with the mark "NEC" and that transfer of such mark conveyed the requisite goodwill over the goods in question.

Fourth, defendants argues that the transfer was defective in that there was no exchange of monetary consideration. Defendant refers to the deposition testimony of plaintiff's general counsel, Robert Hinckley, as proof of the lack of consideration. In addition, defendant argues that there was a lack of arms-length negotiation in that Hinckley represented both sides to the agreement, but its citation to Hinckley's declaration is inaccurate.

In contrast, plaintiff provides evidence that the assignment was prepared by NEC-USA's outside trademark counsel, attorney MacDonald. The consideration allegedly exchanged took the form of NEC-USA's "continued development of goodwill associated with the 'NEC'-marked semiconductors in the U.S., NEC-USA's policing of the 'NEC' mark as applied to semiconductors in the United States, and NEC-Japan's forebearance from selling 'NEC'-marked semiconductor products in the United States."

It is well established that a valid transfer of a trademark or a service mark can be effected even though minimal or no tangible assets of the business are transferred with the mark. *See Glamorene Products Corp. v. Procter & Gamble, Co.*, 538 F.2d 894, 895 (C.C.P.A. 1976); *see e.g., Sterling Brewers, Inc. v. Schenley Industries, Inc.*, 441 F.2d 675 (C.C.P.A. 1971); *compare Greenlon, Inc. of Cincinnati v. Greenlawn, Inc.*, 542 F.Supp. 890, 894 (S.D.Ohio 1982) (where no transfer of any assets held to be an assignment in gross).

As applied to the present case, the consideration exchanged by tha parties appears to have validly transferred the goodwill of the "NEC" mark from the foreign parent corporation to its American subsidiary. The lack of monetary exchange does not operate to prevent the valid transfer of the "NEC" mark transferred with the mark and therefore, the assignee obtained the rights to use the mark in the United States.

Fifth, defendant questions concerning the assignment on June 8, 1984 of the mark from Nippon Electric Co., Ltd. to Nippon Denki Kabushiki Kaisha, d/b/a NEC Corporation is likewise without merit. According to plaintiff's declarations, "Nippon Electric Co., Ltd.," "Nippon Denki Kabushiki, Kaisha" and "NEC Corporation" are all the same company. In 1983, there was a change in tradenames from "Nippon Electric Co., Ltd." to "NEC Corporation," and in order to record this change, plaintiffs filed the above nominal assignment.

Sixth, defendant's concerns with respect to the October 1984 license agreement and its effect on the assignment are also without foundation. The sole subject matter of the license agreement is a non-exclusive patent and technology license which allows NEC-USA to manufacture and sell certain semiconductor parts under patents held by NEC-Japan. This license agreement does not in any way effect the validity of the trademark rights to the assignment in question nor NEC-USA's status of the exclusive authorized distributor of the "NEC" trademarked semiconductor products.

i) Separate and Independent goodwill.

Under the exhaustion doctrine,

> "a marketholder may no longer control branded goods after releasing them into the stream of commerce. After the first sale, the brandholder's control is deemed exhausted. Down-the-line retailers are free to display and advertise the branded goods. Secondhand dealers may advertise the branded merchandise for resale in competition with the sales of the marketholder (as long as they do not represent themselves as authorized agents)."

Osawa & Co. v. B. & H. Photo, 589 F.Supp. 1163, 1173-1174 (S.D.N.Y. 1984); *see also, Weil Ceramics & Glass, Inc. v. Dash,* 618 F.Supp. 700, 707 (D.C.N.J. 1985).

Defendant asserts that the original markholder, NEC-Japan, lost control of the marked goods by releasing them into commerce, and thus NEC-USA could not own rights superior to other grey market competitors. However, an exception exists to

the exhaustion doctrine where the assignee of the mark develops a separate, factually independent goodwill. *Osawa, supra,* 589 F.Supp. at 1174.

As in *Osawa,* plaintiff has convincingly proved that, as the result of its efforts, it has developed in the United States marketplace a substantial goodwill separate and distinct from the goodwill emanating from the branded goods themselves. This local goodwill is the product of plaintiff's activities promoting and standing behind their mark, including but not limited to, front end technical support to its customers, quality control, significant warranty service, extensive advertising and promotion of its product, and the selection and training of its technical personnel.

b) Defendant's Use of the "NEC" Mark Without Plaintiff's Permission.

Defendant concedes in its papers that it is distributing "grey market goods," otherwise referred to as genuine "NEC" products, but distributed through parallel sources without plaintiff's permission. Therefore, this prong of the test is adequately met.

c) Customer Confusion.

There appear to be differences within this circuit as to whether consumer confusion is possible where genuine goods are sold through parallel modes of importation. On one hand, there is a line of cases beginning with *Monte Carlo Shirt, Inc. v. Daewoo Intern. (America),* 707 F.2d 1054, 1057 (9th Cir. 1983) and its progeny which held that where genuine goods are involved, there is no cause of action for trademark infringement because there is no likelihood of confusion. *See e.g., El Greco Leather Products Co. v. Shoe World, Inc.,* 599 F.Supp. 1380 (E.D.N.Y. 1984) (unauthorized sale of genuine goods could not give rise to likelihood of confusion necessary to maintain federal trademark infringement action).

The other line of authority stems from the Ninth Circuit's affirmance of this Court's opinion in *Model Rectifier.* In *Model Rectifier,* this Court found that the defendant's radio-controlled model buggy kits appeared to be identical to the product produced by plaintiff except for certain markings and logos, and held

that regardless of "[w]hether defendants are importing 'genuine' model buggy kids actually manufactured by Tamiya Plastic Model Co. [the Japanese manufacturer] or counterfeit kits, it appears likely that they are violating plaintiff's exclusive trademark rights in the TAMIYA name and logo by selling their kits in the United States." *Model Rectifier, supra,* 220 U.S.P.Q. at 511. In affirming this decision, the Ninth Circuit stated that "[t]he test for trademark infringement is whether the use of the trademark by the alleged infringer is likely to cause confusion." *Model Rectifier v. Takachiho International,* 221 U.S.P.Q. 502, 503 (9th Cir. 1983); *see also Weil Ceramics & Glass, Inc. v. Dash,* 618 F.Supp. at 706 (genuine goods may cause confusion).

Defendant naturally relies upon the *Monte Carlo* line of reasoning, whereas plaintiff relies upon *Model Rectifier* in support of their respective positions.

The case at bench is distinguishable from *Monte Carlo* in two essential ways. First, in *Monte Carlo,* the origin of the goods stemmed from the foreign manufacturer without alteration or change. The product involved the manufacture of shirts, and there was no consideration of the post-manufacturing quality control and no related warranty service. In comparison, plaintiff alleges that the technical assistance, significant warranty guarantees, and other service related items are part and parcel of their "NEC" trademarked product. This apparently enables plaintiff to maintain strict quality control in order to guarantee the excellence of their product. Second, in *Monte Carlo* the circuit interpreted California law, whereas here, this action arises under the Lanham Act.

Of the two positions, the position adopted by *Model Rectifier,* appears to be consistent with established trademark law and with the intent of § 32 of the Lanham Act. In *Bourjois & Co. v. Katzel,* 260 U.S. 689 (1923), the Supreme Court upheld the district court's injunction enjoining defendant from selling face powders produced and sold by a French manufacturer but packaged slightly different from plaintiff's goods. In holding that defendant's conduct constituted infringement, the Court set forth the "territoriality principle" in which the protection which a trademark receives in a particular country depends upon the law of that

country. *See Weil Ceramics, supra,* 618 F.Supp. at 705; *Bell & Howell v. Masel Supply Co.,* 548 F.Supp. 1063, 1066 (E.D.N.Y. 1982); *Osawa & Co. v. B & H Photo,* 589 F.Supp. 1163, 1171 (S.D.N.Y. 1984). This principle recognizes that a trademark has a separate legal existence in each country and that the trademark does not specify the "source of origin" of the product, but instead "symbolizes the goodwill of the domestic markholder whose reputation backs the particular product in that territory." *Id.* at 705. Therefore, "even if a trademark correctly identified the manufacturer of the goods, it would still be an infringing product if it deceived the public into believing that the domestic markholder's goodwill stood behind the product." *Id.*

This legislative history of § 32 of the Lanham Act also provides additional authority for the proposition that confusion of the consumers should be analyzed in determining the existence of a trademark infringement rather than merely examining the source of the origin of the goods. In its original form, the federal infringement section required a showing that the alleged infringer's use "is likely to cause confusion, or to cause mistake, or to deceive *purchasers as to the source of origin of such goods or services.*" 15 U.S.C. § 1114(1)(emphasis added). In 1962, Congress amended the above statute to eliminate the language pertaining to the source of origin, "thereby evincing a clear purpose to outlaw the use of trademarks which are likely to cause confusion, mistake, or deception of any kind, not merely of purchasers nor simply as to source of origin." *Syntex Laboratories, Inc. v. Norwich Pharmacal Co.,* 437 F.2d 566 (2d Cir. 1971); *Weil Ceramics, supra,* 618 F.Supp. at 706.

When the confusion factor is examined in case at bench, the evidence produced by plaintiff is quite persuasive. Plaintiff produces seven declarations of individuals who attest that they were confused about the relationship between defendant and plaintiff. At least three persons actually purchased defendant's product not realizing that defendant is not an authorized dealer of "NEC" goods. Another person also bought defendant's goods expecting plaintiff's extensive warranty service. Others were confused until this lawsuit as to whether defendant was an authorized dealer of plaintiff's goods because of defendant's business card which bears

the name of "NEC" in addition the names of other Japanese manufacturers of integrated circuits. Others have been confused as to price disparities. Others have attested to the fact that they have no method of ascertaining the actual provider of the "NEC" goods, and thus will turn to plaintiff in the event that there is a malfunction of the product. One person actually purchased a defective "NEC" product from defendant, turned to plaintiff for recourse, and when plaintiff refused to repair the product the customer was confused as to the reasons why. Thus, there is ample evidence before the court of actual confusion of the goods.

2) IRREPARABLE INJURY

Plaintiff alleges that defendant's conduct is causing ongoing irreparable harm in that plaintiff is no longer able to control its own reputation and goodwill associated with its product. As customers are confused into believing that defendant's products are associated with plaintiff's, customers become disatisfied with plaintiff whenever defendant's product or conduct is unsatisfactory. In addition, there are declarations establishing that defendants actions are causing a demoralizing effect on plaintiff's sales personnel. Furthermore plaintiff submits declarations that it is has performed warranty repairs on grey market products, essentially furnishing free service and benefit to support the sales of its competitors.

Plaintiff also complains that defendant's free ride off the plaintiff's front end expenditures, warranties, and service, is accruing to its competitors benefit. Plaintiff submits numerous declarations pertaining to its investment of the product, including but not limited to, public relations with its customers, technical seminars for the customers, training programs in the United States, extensive advertising in national and local trade journals, participation in trade shows and other promotional programs, dispursement of technical engineering literature concerning "NEC" products, maintaining a force of field applications engineers who are available to provide technical assistance to customers, extensive free warranty service on its products, and assistance to the customers in selecting and designing their needs. In 1985 alone, plaintiff's corporate communications department budget, which does not include advertising and promotional expenditures,

was $2,912,000. From the fiscal years 1973 through 1983, plaintiff estimates that it expended in excess of eight million dollars in advertisements and promotional activities.

This circuit has recognized that grey market sales, in certain circumstances, poses sufficient danger of immediate and irreparable injury to plaintiff's trade identity rights to justify the imposition of a preliminary injunction. *See Model Rectifier, supra,* 221 U.S.P.Q. at 505; *Apple Computer, Inc. v. Formula Intern, Inc.,* 725 F.2d 521, 523 (9th Cir. 1984); The deprivation of ability to control its own reputation and goodwill in the United States would constitute immediate and irreparable injury to plaintiff's trademark. Under the facts presented, plaintiff has demonstrated that it would suffer irreparable harm from defendant's conduct sufficient to sustain a preliminary injunction.

Defendant argues that the doctrine of laches refutes plaintiff's allegations of irreparable harm in this action. Defendant argues that plaintiff became aware of the parallel importation of grey market goods on or about December, 1983. According to defendant, plaintiff's delay in filing the initial complaint until February 27, 1985 and its delay in not filing the present motion for a preliminary injunction until December 20, 1985 should preclude any finding of irreparable harm. During this interval, defendant asserts that it opened over 40 offices in North America which employs over 220 persons.

Under the facts presented, it does not appear as if plaintiff unduly delayed in filing this present motion. Given the proof necessary to establish the high burden of injunctive relief, and after review of the declarations and exhibits presented by plaintiff in its request for a preliminary injunction, plaintiff's present motion is timely. Moreover, defendant's contention of detrimental reliance due to its expanding business would render null any injunction against a party infringing any trademark. At the instigation of the lawsuit, defendant was fully apprised of the nature of the suit and the relief requested in the complaint.

3) CONCLUSION

Based on the above discussion, the court grants plaintiff's motion for a preliminary injunction against defendant, and at-

tached hereto are the specific terms of the injunction. The court has considered defendant's request for a stay pending appeal of the court's decision, and the request is hereby denied.

In addition, the court also grants plaintiff's motion for a partial summary judgment on the grounds that there are no genuine issues of material fact that defendant's sale in the United States of electronic components bearing the identifying mark 'NEC' constitutes trademark infringement under 15 U.S.C. §§ 1114(1) and 1125. Specifically, the court concludes the following:

A) that NEC-USA is the exclusive owner in the United States of the valid and subsisting federal registrations for the trade and servicemarks 'NEC' as applied to electronic components and support services;

B) that Cal Abco is using the 'NEC' mark in connection with the sale of electronic components in the United States without NEC-USA's consent;

C) that the 'NEC' mark as applied to electronic components and support services has separate goodwill in the United States, and;

D) that Cal Abco's use of the 'NEC' mark in the United States, including the sale of electronic components bearing the 'NEC' mark, is likely to cause confusion.

Dated: August 15, 1986.

/s/ CONSUELO B. MARSHALL
Consuelo B. Marshall, Judge
United States District Court

Appendix C

United States Court of Appeals
For the Ninth Circuit

No. 86-6456

NEC Electronics, Inc.,
Pltf/Counter-Deft/Appellee,

vs

Alex Sandel, et al.,
Defendant,

NEC Corp., et al.,
Counter-Defendant,

and

CAL Circuit ABCO, Inc, aka CAL-ABCO,
Deft/Counter-Claimant/Appellant,

Judgment

APPEAL from the United States District Court for the Central District of California.

THIS CAUSE came on to be heard on the Transcript of the Record from the United States District Court for the Central District of California and was duly submitted.

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court, that the Appeal judgment of the said District Court in this Cause be, and hereby is Reversed, Vacated and Remanded.

Filed and entered Feb. 24, 1987

Appendix D

Section 32 of the Federal Trademark Act of 1946 (Lanham Act), 15 U.S.C. § 1114 (1986):

§ 1114. Remedies; infringement; innocent infringement by printers and publishers

(1) Any person who shall, without the consent of the registrant—

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or

(b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce, upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.

shall be liable in a civil action by the registrant for the remedies hereinafter provided. Under subsection (b) of this section, the registrant shall not be entitled to recover profits or damages unless the acts have been committed with knowledge that such imitation is intended to be used to cause confusion, or to cause mistake, or to deceive.

(2) Notwithstanding any other provision of this chapter, the remedies given to the owner of the right infringed shall be limited as follows: (a) Where an infringer is engaged solely in the business of printing the mark for others and establishes that he was an innocent infringer the owner of the right infringed shall be entitled as against such infringer only to an injunction against future printing; (b) where the infringement complained of is contained in or is part of paid advertising matter in a newspaper, magazine, or other similar periodical the remedies of the owner of

the right infringed as against the publisher or distributor of such newspaper, magazine, or other similar periodical shall be confined to an injunction against the presentation of such advertising matter in future issues of such newspapers, magazines, or other similar periodical: *Provided,* That these limitations shall apply only to innocent infringers; (c) injunction relief shall not be available to the owner of the right infringed in respect of an issue of a newspaper, magazine, or other similar periodical containing infringing matter when restraining the dissemination of such infringing matter in any particular issue of such periodical would delay the delivery of such issue after the regular time therefor, and such delay would be due to the method by which publication and distribution of such periodical is customarily conducted in accordance with sound business practice, and not to any method or device adopted for the evasion of this section or to prevent or delay the issuance of an injunction or restraining order with respect to such infringing matter.

Section 43 of the Federal Trademark Act of 1946 (Lanham Act), 15 U.S.C. § 1125 (1986):

§ 1125. False designations of origin and false descriptions forbidden

(a) Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

(b) Any goods marked or labeled in contravention of the provisions of this section shall not be imported into the United

States or admitted to entry at any customhouse of the United States. The owner, importer, or consignee of goods refused entry at any customhouse under this section may have any recourse by protest or appeal that is given under the customs revenue laws or may have the remedy given by this chapter in cases involving goods refused entry or seized.

Section 526 of the Tariff Act of 1930 ("The Genuine Goods Exclusion Act"), 19 U.S.C. § 1526 (1986):

§ 1526. Merchandise bearing American Trademark

Importation prohibited

(a) Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.

Seizure and forfeiture

(b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

Injunction and damages

(c) Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trademark and shall be liable for the same damages and profits provided for wrongful use of a trademark, under the provisions of sections 81 to 109 of Title 15.

Exemptions; publication in Federal Register;
forfeitures; rules and regulations

(d)(1) The trademark provisions of this section and section 1124 of Title 15, do not apply to the importation of articles accompanying any person arriving in the United States when such articles are for his personal use and not for sale if (A) such articles are within the limits of types and quantities determined by the Secretary pursuant to paragraph (2) of this subsection, and (B) such person has not been granted an exemption under this subsection within thirty days immediately preceding his arrival.

(2) The Secretary shall determine and publish in the Federal Register lists of the types of articles and the quantities of each which shall be entitled to the exemption provided by this subsection. In determining such quantities of particular types of trademarked articles, the Secretary shall give such consideration as he deems necessary to the numbers of such articles usually purchased at retail for personal use.

(3) If any article which has been exempted from the restrictions on importation of the trade-mark laws under this subsection is sold within one year after the date of importation, such article, or its value (to be recovered from the importer), is subject to forfeiture. A sale pursuant to a judicial order or in liquidation of the estate of a decedent is not subject to the provisions of this paragraph.

(4) The Secretary may prescribe such rules and regulations as may be necessary to carry out the provisions of this subsection.

Merchandise bearing counterfeit mark;
seizure and forfeiture;
disposition of seized goods

(e) Any such merchandise bearing a counterfeit mark (within the meaning of section 1127 of Title 15) imported into the United States in violation of the provisions of section 1124 of Title 15, shall be seized and, in the absence of the written consent of the trademark owner, forfeited for violations of the customs laws. Upon seizure of such merchandise, the Secretary shall notify the

owner of the trademark, and shall, after forfeiture, obliterate the trademark where feasible and dispose of the goods seized—

(1) by delivery to such Federal, State, and local government agencies as in the opinion of the Secretary have a need for such merchandise,

(2) by gift to such eleemosynary institutions as in the opinion of the Secretary have a need for such merchandise,

(3) more than 1 year after the date of forfeiture, by sale by appropriate customs officers at public auction under such regulations as the Secretary prescribes, except that before making any such sale the Secretary shall determine that no Federal, State, or local government agency or eleemosynary institution has established a need for such merchandise under paragraph (1) or (2), or

(4) if the merchandise is unsafe or a hazard to health, by destruction.

19 C.F.R. § 133.21: Restrictions in importation of articles bearing recorded trademarks and trade names.

(a) *Copying or simulating marks or names.* Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations. A "copying or simulating" mark or name is an actual counterfeit of the recorded mark or name or is one which so resembles it as to be likely to cause the public to associate the copying or simulating mark with the recorded mark or name.

(b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:

(1) both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2(d) and 133.12(d);

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner;

(4) The objectionable mark is removed or obliterated prior to importation in such a manner as to be illegible and incapable of being reconstituted, for example by:

(i) Grinding off imprinted trademarks wherever they appear;

(ii) Removing and disposing of plates bearing a trademark or trade name;

(5) The merchandise is imported by the recordant of the trademark or trade name or his designate;

(6) The recordant gives written consent to an importation of articles otherwise subject to the restrictions set forth in paragraphs (a) and (b) of this section, and such consent is furnished to appropriate Customs officials; or

(7) The articles of foreign manufacture bear a recorded trademark and the personal exemption is claimed and allowed under § 148.55 of this chapter.

(d) *Exceptions for articles bearing counterfeit trademarks.* The provisions of paragraph (c)(4) of this section are not applicable to articles bearing counterfeit trademarks at the time of importation (see § 133.24).

Appendix E

Robert B. Pringle
Wynne S. Carvill
Steven L. Hock
John R. Foote
Thelen, Marrin, Johnson & Bridges
Two Embarcadero Center
San Francisco, California 94111
Telephone: (415) 392-6320

Attorneys for NEC Electronics Inc.
and NEC Corporation

United States District Court

Central District of California

No. CV-85-1344 CBM (Kx)

NEC Electronics Inc.,
Plaintiff,

vs

CAL Circuit ABCO, Inc., et al.,
Defendants.

And Related Counterclaim.

Declaration of Beverly Lomas in Support of Motion for Preliminary Injunction and Partial Summary Judgment

Hearing Date: February 3, 1986

Time: 10:00 a.m.

Before: The Honorable Consuelo B. Marshall

I, Beverly Lomas, declare:

1. I am the General Manager for Lomas Data Products, Inc., located at 66 Hopkinton Road, Weston, Massachusetts.

2. As General Manager, I am responsible for all purchasing of electronic components. I buy only such of those components as are made by manufacturers specified by Lomas Data Products' engineers. I make it a practice to buy only from authorized

franchised distributors for such manufacturers and not from "brokers" or "dealers". I do this because it is essential that Lomas Data Products have the backing of the manufacturer of each component incorporated in computer boards manufactured by Lomas.

3. I have purchased NEC integrated circuits and know them to be of high quality and reliability. My only purchases of NEC product have been made through one of its authorized franchised distributors. Another manufacturer whose integrated circuits I have purchased is Intel, and they too are of high quality and reliability.

4. In November, 1984, I needed a quantity of a component commonly referred to as 64K DRAMs, manufactured by Intel. Intel was unable to supply them and it was necessary that I obtain a Japanese manufactured cross reference for that part. It was during this time that I received a phone call from Jeff Ellis, a CAL ABCO representative, who said that CAL ABCO was a distributor and had excellent products available. I agreed to see Mr. Ellis and he came to my office.

5. During the meeting in my office, Mr. Ellis gave me a CAL ABCO line card which stated that products were available from NEC, Toshiba and other Japanese manufacturers. I asked Mr. Ellis if CAL ABCO was an authorized distributor for those manufacturers and, although I cannot recall his exact words, I understood him to represent that CAL ABCO was such an authorized distributor. He told me that he had available 64K DRAMs made by Toshiba that were cross referenced to the Intel 64K DRAM. Relying upon my understanding that CAL ABCO was an authorized distributor for Toshiba, later on November 13, 1984, I gave CAL ABCO a purchase order for 1000 units of 64K DRAMs. This was the only purchase I have made from CAL ABCO and I would not have made it had I known, as I later learned, that CAL ABCO was not an authorized distributor for Toshiba.

6. If I were called as a witness, I would and could testify competently under oath to the facts herein set forth, which are of

my personal knowledge, unless stated upon information and belief.

I declare under penalty of perjury under the laws of the United States of America, that the foregoing is true and correct.

Dated: August 17, 1985

/s/ BEVERLY LOMAS
Beverly Lomas

Robert B. Pringle
Wynne S. Carvill
Steven L. Hock
John R. Foote
Thelen, Marrin, Johnson & Bridges
Two Embarcadero Center
San Francisco, California 94111
Telephone: (415) 392-6320

Attorneys for NEC Electronics Inc.
and NEC Corporation

United States District Court

Central District of California

No. CV-85-1344 CBM (Kx)

NEC Electronics Inc.,
Plaintiff,

vs

CAL Circuit ABCO., Inc., et al.,
Defendants.

And Related Counterclaim.

Declaration of H. J. Lizotte, Jr. in Support of Motion for Preliminary Injunction and Partial Summary Judgment

Hearing Date: February 3, 1986

Time: 10:00 a.m.

Before: The Honorable Consuelo B. Marshall

I, H. J. LIZOTTE, JR., declare:

1. I have been employed by manufacturers of electronic products as a purchaser of electronic components for sixteen (16) years. For the past fifteen (15) months, I have been Director of Purchasing for Gould, Inc., Programmable Control Division ("P.C.D."). For the prior five (5) years, I was manager of Purchasing at P.C.D. Gould, Inc. has approximately twenty (20) divisions throughout the United States that design and manufac-

ture various electronic products, including programmable controllers, medical instrumentation, imaging and graphic devices, items for military defense, etc. Gould, Inc.'s sales of electronic products exceed One Billion Dollars ($1,000,000,000) annually.

2. There are twenty-four (24) employees in Gould P.C.D. Purchasing Department. They take requisitions from Material Control, a planning group, and purchase electronic components from an Approved Vendors List compiled and maintained by Gould P.C.D. Quality Control Department. Such list shows the names of authorized manufacturers of electronic components and part numbers which have been qualified by Gould P.C.D. engineers for incorporation in products manufactured by P.C.D.

3. To qualify an electronic component requires that samples be obtained from the manufacturer of the part to be qualified. Then such samples are inspected by Gould engineers and tested to the manufacturers' specifications and then tested for functioning in the product for which they are to be used. Only the authorized manufacturers and part numbers of those components which have been so qualified are included in Gould P.C.D. Approved Vendors Lists. NEC has been included on such List for those qualified components manufactured by it at all times during my employment at Gould P.C.D.

4. Gould P.C.D. does, and at all times during my employment has, bought integrated circuits manufactured by NEC. By reputation and to my own knowledge, NEC electronic components are high in quality and reliability; NEC backs its product with good product information, technical data, and extensive customer services; and I consider NEC a strategic source of electronic components for Gould P.C.D.

5. Upon reading CAL ABCO's line card, I assumed that CAL ABCO was an authorized distributor for NEC and the other Japanese manufacturers listed on the card because there was nothing to indicate otherwise. In December 1983, it came to my attention that one of Gould P.C.D. buyers had purchased from CAL ABCO, 3000 units of NEC's UPD444C, 1KCMOS RAM at $12.95 per unit. The price was roughly three (3) times the price usually charged and in addition, on July 9, 1984, there was

an overshipment of 1,000 units, which Gould P.C.D. accepted. I personally complained to Robert DiNucci, a manufacturer's representative for NEC, about the price. He told me that CAL ABCO was not an authorized distributor for NEC product and that he could do nothing.

6. It is my belief that CAL ABCO is taking an undeserved advantage of NEC in selling its products even though not authorized or franchised as a distributor by NEC. I know that NEC product quality is high and that the trademark NEC acquired goodwill and value because of the advertising of product carrying it, the customer services provided by NEC representatives and authorized distributors and the product backing given by them. As far as I am aware, CAL ABCO gives only a money-back guarantee on NEC products sold by it. That guarantee has no real significance to Gould P.C.D. however, since once components are put in stock inventory they cannot be tracked by the distributor. They can only be tracked by the manufacturer whose name or trademark appears on the parts themselves. Hence, once in stock, if an NEC part turns out to be defective or fails for any reason, Gould P.C.D. turns to NEC for assistance or to make things right.

7. If I were called as a witness, I would and could testify competently under oath to the facts herein set forth, which are of my personal knowledge, unless stated upon information and belief.

I declare under penalty of perjury under the laws of the United States of America, that the foregoing is true and correct.

Executed this 29th day of August, 1985.

/s/ H. J. LIZOTTE, JR.
H. J. Lizotte, Jr.

Robert B. Pringle
Wynne S. Carvill
Steven L. Hock
John R. Foote
Thelen, Marrin, Johnson & Bridges
Two Embarcadero Center
San Francisco, California 94111
Telephone: (415) 392-6320

Attorneys for NEC Electronics Inc.
and NEC Corporation

United States District Court

Central District of California

No. CV-85-1344 CBM (Kx)

NEC Electronics Inc.,
Plaintiff,

vs

CAL Circuit ABCO, Inc., et al.,
Defendants.

And Related Counterclaim.

Declaration of Sharron Garthwaite in Support of Motion for Preliminary Injunction and Partial Summary Judgment

Hearing Date: February 3, 1986

Time: 10:00 a.m.

Before: The Honorable Consuelo B. Marshall

I, SHARRON GARTHWAITE, declare:

1. I have been employed in the purchasing of electronic components for approximately twelve years. At the times mentioned herein I have been employed by John Fluke Mfg. Co., Inc. ("John Fluke Co.") Everett, Washington, as a buyer of electronic components for Research and Development of new products.

2. I am authorized to buy only components whose manufacturers and part numbers are set forth in Requisitions prepared by John Fluke Co. engineers. It is my practice to purchase parts only from factory representatives or authorized distributors of the manufacturers on such part Requisitions. The only exception to that practice would be if the required part was not available through any factory representative or authorized distributor of such manufacturer, in which case I would buy from whatever other source had the part available.

3. I have known of the existence of Cal Abco for more than one year. However, until May, 1985 it was my impression and belief that Cal Abco was an authorized distributor for NEC products. My impression and belief was based on the Cal Abco line card which I reviewed. From the language and appearance of that line card, bearing as it did the name NEC as well as those of other Japanese manufacturers of integrated circuits, I assumed that Cal Abco was an authorized distributor for each of those manufacturers. This assumption was reinforced in my mind because no where did the line card state or imply that Cal Abco was not an authorized distributor for such manufacturers. Further, no representative of Cal Abco has ever stated to me, in words or substance, that Cal Abco was not an authorized distributor for NEC or for any of the other manufacturers listed on its line card.

4. If I were called as a witness, I would and could testify competently under oath to the facts herein set forth, which are of my personal knowledge, unless stated upon information and belief.

I declare under penalty of perjury under the laws of the United States of America, that the foregoing is true and corrrect.

Executed this 6th day of September, 1985.

/s/ SHARRON GARTHWAITE
Sharron Garthwaite

Robert B. Pringle
Wynne S. Carvill
Steven L. Hock
John R. Foote
Thelen, Marrin, Johnson & Bridges
Two Embarcadero Center
San Francisco, California 94111
Telephone: (415) 392-6320

Attorneys for NEC Electronics Inc.
and NEC Corporation

United States District Court

Central District of California

No. CV-85-1344 CBM (Kx)

NEC Electronics Inc.,
Plaintiff,

vs

CAL Circuit ABCO, Inc., et al.,
Defendants.

And Related Counterclaim.

Declaration of Ronald M. Camillone in Support of Motion for Preliminary Injunction and Partial Summary Judgment

Hearing Date: February 3, 1986

Time: 10:00 a.m.

Before: The Honorable Consuelo B. Marshall

I, RONALD M. CAMILLONE, declare:

1. I reside at 109 Woodmill Road, Longwood, Florida, and I am the president of Semtronics Associates, Inc., which is a manufacturer representative for electronic components in the State of Florida. I have been president of Semtronics for approximately fifteen years, and I have an electrical engineering degree.

2. Semtronics is a manufacturer's representative for a number of vendors with non-competing product lines. We have offices staffed with technically trained personnel throughout the State of Florida and work very closely with the manufacturers whom we represent. Our principal line is that marketed by NEC Electronics Inc. ("NECEL"). NECEL supports us in this effort in at least the following ways:

(a) NECEL sponsors a variety of sales, service and training programs throughout the United States which are attended by our personnel. At these programs we receive the latest technical engineering information on NECEL products.

(b) NECEL holds trade shows and various educational and promotional programs within the State of Florida which are attended by our personnel and our customers and prospective customers.

(c) NECEL provides us with technical engineering literature on their product line and its possible applications.

(d) NECEL makes available to us field applications engineers ("FAEs") who can provide technical assistance to our personnel and our customers.

(e) NECEL makes available to us and our customers technical resources at NECEL facilities in Natick, Massachusetts, and Mt. View, California to enable us to meet the requirements of our customers.

(f) NECEL advertises extensively in trade journals such as Electronic News and the like.

3. As a manufacturer's representative, we act as the sales arm of NECEL in the State of Florida and actively promote the use of NECEL products. Customers buy from local, authorized distributors supported by us or in some instances directly from the factory. Our role is to help customers with technical matters at the design-in phase of the process and with post-sales support and service. We are compensated by NECEL on a commission paid on sales through NECEL's Florida distributors.

4. By the design-in phase, I mean the initial work in getting a customer's engineering department to design in or approve an NEC component for the customer's product. This is sometimes referred to as "control drawing." An OEM's engineering department typically prepares a control drawing which physically shows the part to be used in a product and the manufacturer who shall provide the part and then issues the control drawing to the purchasing department. Purchasing will only buy a part where engineering has issued a control drawing or, in some instances, where purchasing has developed a control drawing for a second source.

5. Semtronics in conjunction with NECEL's authorized distributors attempts to identify opportunities at OEM's to sell NECEL parts. Once an opportunity is identified we approach engineering and help prepare the control drawing for their particular requirement. We also provide samples to the OEM for testing and continue to work with the OEM until the right NECEL part is identified and the control drawing issued to purchasing. NECEL supports us in this entire process by providing not only the necessary training and technical information but also by making FAEs available to address particular needs that may arise.

6. I have heard of sales of NECEL parts made by Cal-ABCO and other grey-marketeers. Such sales can usually only be made where we have previously done the design-in work. As we are compensated on commissions only on sales through authorized distributors, we are not compensated for any sales made through a grey-marketeer such as Cal-ABCO even though we may have done the design-in work for the particular application.

7. We also handle the return of parts to NECEL. No part can be returned by a distributor without a "return material authorization" ("RMA") from us. The quality of the NECEL product is very high, and accordingly there are very few defective parts or returns. When we do handle an RMA, though, we rely on the "NEC" mark for determining the source of the product. If a customer has been buying from both authorized and unauthorized distributors, and comingling the product in inventory, we usually

have no way of determining whether the part to be returned was or was not purchased through an authorized distributor.

I declare under penalty of perjury under the laws of the United States of America, that the foregoing is true and correct.

Executed this 15th day of November, 1985

/s/ RONALD M. CAMILLONE
Ronald M. Camillone

Robert B. Pringle
Wynne S. Carvill
Steven L. Hock
John R. Foote
Thelen, Marrin, Johnson & Bridges
Two Embarcadero Center
San Francisco, California 94111
Telephone: (415) 392-6320

Attorneys for NEC Electronics Inc.
and NEC Corporation

United States District Court

Central District of California

No. CV-85-1344 CBM (Kx)

NEC Electronics Inc.,
Plaintiff,

vs

CAL Circuit ABCO, Inc., et al.,
Defendants.

And Related Counterclaim.

Declaration of Fred Stevens in Support of Motion for Preliminary Injunction and Partial Summary Judgment

Hearing Date: February 3, 1986

Time: 10:00 a.m.

Before: The Honorable Consuelo B. Marshall

I, Fred Stevens, declare:

1. For the past three and one-half years I have been employed as Purchasing Manager for AFI Datatrol, Brent Drive, Hudson, Massachusetts.

2. When I started working for AFI Datatrol, it was already an NEC customer buying integrated circuits manufactured by NEC.

Prior to that time I knew about NEC integrated circuits because of advertisements and reputation in the electronics industry.

3. AFI Datatrol manufactures electronic products consisting in principal part of point of sale terminals and credit authorization terminals. It buys and uses a very large number of integrated circuits in those products. These are produced from authorized distributors or factory representatives for manufacturers whose names are on AFI Datatrol's Approved Vendor's List. That list is compiled by design and component engineers who determine what components to purchase for a product to be manufactured by AFI Datatrol.

4. For an electronic component manufacturer's name to be placed on the Approved Vendor's List requires that any of its parts to be purchased for incorporation in AFI Datatrol products be first "qualified" by Datatrol engineers. To be "qualified" requires that samples of the subject component be provided to Datatrol engineers who inspect them, compare them to the manufacturer's specifications and then subject them to a variety of tests for performance, reliability, functioning, etc. Normally, the qualification process takes from four to eight months to complete. Because the qualification process requires time and involves significant expense, it is not undertaken unless an additional source or sources are needed for the particular component.

5. In 1983 I received one of CAL ABCO's line cards and later met with representatives of that company. The line card listed NEC as one of its Japanese sources for integrated circuits. The line card indicated that CAL ABCO was in the business of "Electronic Components Distribution" and I assumed that it was an authorized distributor for NEC and other manufacturers shown on the card. However, I told CAL ABCO representatives that I could buy only from authorized distributors of manufacturers of the products I bought and was assured by at least one of them, Dana Barber, that CAL ABCO was an authorized distributor for the manufacturers listed on its line card. Following that I did make a purchase of a relatively small number of integrated circuits indentified in the industry as logic circuit, model and manufacturer, I do not recall.

6. Although I made no purchase of NEC product from CAL ABCO, I continued to believe that it was an authorized distributor of NEC product until I read in a trade production about NEC's lawsuit against CAL ABCO in February or March, 1985.

7. During my employment with AFI Datatrol I have come to know that NEC products are of high quality and very reliable; its product information and technical data are reliable and furnished promptly on request; its customer service and backup of product are good; and its field application engineering services are outstanding. To me, all of this has generated good will and NEC and its trademark stand for high quality in both product and customer service.

8. If I were called as a witness, I would and could testify competently under oath to the facts herein set forth, which are of my personal knowledge, unless stated upon information and belief.

I declare under penalty of perjury under the laws of the United States of America, that the foregoing is true and correct.

Dated: August 8, 1985.

/s/ FRED STEVENS
Fred Stevens

Robert B. Pringle
Wynne S. Carvill
Steven L. Hock
John R. Foote
Thelen, Marrin, Johnson & Bridges
Two Embarcadero Center
San Francisco, California 94111
Telephone: (415) 392-6320

Attorneys for NEC Electronics Inc.
and NEC Corporation

United States District Court

Central District of California

No. CV-85-1344 CBM (Kx)

NEC Electronics Inc.,
Plaintiff,

vs

CAL Circuit ABCO, Inc., et al.,
Defendants.

And Related Counterclaim.

Declaration of Ellenmarie Scanlon in Support of Motion for Preliminary Injunction and Partial Summary Judgment

Hearing Date: February 3, 1986

Time: 10:00 a.m.

Before: The Honorable Consuelo B. Marshall

I, Ellenmarie Scanlon, declare:

1. I am currently a Senior Buyer for Bytex Corporation, with offices at 120 Turnpike Road, Southboro, Massachusetts. Prior to my employment by Bytex, I was employed as a purchasing agent by Telelogic, Inc. in Massachusetts. I worked for Telelogic for three years and prior to that time I had worked for Analog Devices in Massachusetts for some two and a half years, also as a

purchasing agent. All told I have had approximately eight years experience in buying electronic components.

2. I first started purchasing NEC integrated circuits while working for Telelogic, Inc. NEC was one of the original equipment manufacturers on the approved vendors list maintained by Telelogic. While at Telelogic I purchased a substantial volume of NEC products and came to know them as products of high quality with very good reliability. Too, I came to know Marshall Industries of Burlington, Massachusetts, a franchised distributor for NEC products, as being very dependable in providing me with any product information or technical data that I requested. In addition, they supplied to Telelogic the services of field application engineers to work with Telelogic engineers as needed for research and development purposes in connection with products manufactured by Telelogic.

3. NEC also appears as an original equipment manufacturer on Bytex Corporation's approved vendors list. Since coming with Bytex, my purchases of NEC product have been through Interface, an NEC authorized distributor in Hopkington, Massachusetts. Interface also provides customer service for NEC products as requested by Bytex Corporation. In addition, both at Telelogic and now at Bytex, I have dealt with NEC factory representatives, namely Robert DiNucci, Tom Carmody and Don Rheault, with Compass Technology. They have been diligent in providing both Telelogic and Bytex with all manner of customer services including product information, technical data, and field application engineering services. By reason of my buying NEC products and dealing with NEC's distributors and factory representatives, I am impressed that NEC products are high in quality and reliability and that it backs those products with very good customer service.

4. During the so-called allocation period, which existed for parts of the years 1983 and 1984, I was unable to obtain an integrated circuit that I had ordered from National Semiconductor. I needed the part for my employer, Telelogic, and began inquiring to see if I could find the part elsewhere or another part that would cross with the part ordered from National Semiconductor. I spoke to a woman representative of CAL ABCO, either Linda or Leslie, who informed me that CAL ABCO had an

equivalent NEC part that they could sell to me. Since I knew of NEC and had confidence in its products, I placed an order for one thousand units which were delivered by CAL ABCO at a cost of approximately $4.00 per unit. The price was only a little bit higher than the price I was to have been charged by National Semiconductor.

5. Before I placed that order with CAL ABCO, I had received a phone call from "Leslie". She made an appointment and came to my office to see me. I met with her and she told me about CAL ABCO and the lines of product that it carried, the customers it sold to and the fact that it was a California operation. She gave me a brochure and also a line card which showed the names of several Japanese original equipment manufacturers of integrated circuits, including that of NEC. "Leslie", and later "Linda", both told me that CAL ABCO obtained its product from overseas sources. However, they were not specific as to the capacity in which CAL ABCO dealt, i.e., whether it was an authorized distributor or simply a broker.

6. I made only the one purchase of product from CAL ABCO mentioned above, in April of 1983. Subsequently, it came to my attention that during the allocation period CAL ABCO was selling parts in short supply for many times the amount normally charged for the same parts by distributors for original equipment manufacturers of such parts.

7. Approximately two and a half months ago, I received a phone call from "Linda" inquiring whether Bytex had need for any products carried by CAL ABCO. I informed Linda that I could not buy from CAL ABCO because it was not a franchise or authorized distributor for any of the original equipment manufacturers whose products it carried.

8. Both at Bytex and at Telelogic, incoming electronic components which have been received and placed in inventory can be tracked only by the name of the manufacturer of that part. That is to say, if a part fails after it is incorporated in a manufactured product, there is no way to determine from whom that particular part has been purchased. Because of that, both Bytex and Telelogic could look to no one but NEC if one of its products failed.

This, despite the fact that it might have been purchased from CAL ABCO or some other source other than NEC or one of its authorized distributors. Thus, as a practical matter, if the NEC trademark appears on a part which fails after incorporation in a product manufactured by Bytex or Telelogic, NEC is looked to as the responsible party and is expected to replace the part if it is defective or determine the cause of failure if it is not defective.

9. It was only because CAL ABCO carries products manufactured by certain original equipment manufacturers, including NEC, that I purchased product from CAL ABCO. This, because by company policy and my own policy, Bytex and Telelogic purchased electronic components manufactured only by those original equipment manufacturers whose names appear on their respective approved vendors lists. To be included on that list requires that the product of the original equipment manufacturers must first be qualified by engineers employed by them. To qualify a part requires that samples be obtained and subjected to various tests by the engineering department. It is only after those tests have been successfully completed that a part will be approved by engineering for use in the product designed and manufactured by the company. The qualification process requires a significant investment of engineering time, frequently from six to eight months, and is for that reason somewhat expensive. Hence, if Bytex or, earlier, Telelogic has multiple sources for a part that has been qualified, it will not undertake the effort to qualify yet another part and thereby acquire an additional source for such product. It was only because CAL ABCO's line card included original equipment manufacturers whose parts had already been qualified by Telelogic that I made the purchase referred to above.

10. If I were called as a witness, I would and could testify competently under oath to the facts herein set forth, which are of my personal knowledge, unless stated upon information and belief.

I declare under penalty of perjury under the laws of the United States of America, that the foregoing is true and correct.

Dated: August 8, 1985

/s/ ELLENMARIE SCANLON
Ellenmarie Scanlon

Robert B. Pringle
Wynne S. Carvill
Steven L. Hock
John R. Foote
Thelen, Marrin, Johnson & Bridges
Two Embarcadero Center
San Francisco, California 94111
Telephone: (415) 392-6320

Attorneys for NEC Electronics Inc.
and NEC Corporation

United States District Court

Central District of California

No. CV-85-1344 CBM (Kx)

NEC Electronics Inc.,
Plaintiff,

vs

CAL Circuit ABCO., Inc., et al.,
Defendants.

And Related Counterclaim.

Declaration of Kenneth P. Bryan in Support of Motion for Preliminary Injunction and Partial Summary Judgment

Hearing Date: February 3, 1986

Time: 10:00 a.m.

Before: The Honorable Consuelo B. Marshall

I, Ken Bryan, declare:

1. I am employed by the Singer Corporation, 16 Springdale Road, Cherry Hill, New Jersey 08003, and work in purchasing as a buyer. I have responsibility for buying, among other items, integrated circuits ("ICs") pursuant to specifications provided by our engineering department.

2. I first came in contact with Cal-ABCO when Ann Kallen (who has since left, and was replaced by Betty Koby) from Cal-ABCO's Marlton office contacted me. She showed me a line card that listed NEC along with other semiconductor manufacturers. It is customary in the IC business to list on a line card only those manufacturers for whom a distributor is an authorized dealer or at least asterisk or footnote in some manner the manufacturers for whom one is not authorized. I assumed Cal-ABCO was an authorized NEC Electronics Inc. ("NECEL") distributor because there was no asterisk, footnote or other indication to the contrary on the line card. Ms. Koby did nothing to dispel my assumption, and Cal-ABCO was immediately able to establish a business relationship with us because of the credibility associated with the manufacturers' names on the line card.

3. After talking with Ms. Koby I placed an order for NEC product through Cal-ABCO. The reason I purchased the NEC product (an IC designated "2732A") was that NEC had the lowest cost for the EPROM I needed. I placed this order with Cal-ABCO because I believed Cal-ABCO was an authorized, franchised distributor of NEC product.

4. When the second batch of NEC product ordered from Cal-ABCO arrived, it was removed from the shipping carton and placed into the research and development stock. When it was ultimately used, the part was determined to be defective. Because the product bore the "NEC" mark, Mr. Romanowski of our office contacted NECEL for repair, replacement or reimbursement. Mr. Romanowski was advised that the part had not been obtained through a franchised or authorized source and that NECEL did not warrant the product.

5. When I was advised by Mr. Romanowski that NECEL did not stand behind this product, I called Ms. Koby. She arranged for Cal-ABCO to replace the NEC product with Hitachi product.

6. Singer always looks to the manufacturer to stand behind its product. In particular, NECEL has always had an excellent reputation in the industry, not only for its product, but also for its customer service and warranty work thus, I found it to be unusual,

and confusing, when NECEL refused to repair, replace or reimburse us for the parts in question.

I declare under penalty of perjury under the laws of the United States of America, that the foregoing is true and correct. Executed this 10th day of December, 1985.

/s/ KENNETH P. BRYAN
Kenneth Bryan

Robert B. Pringle
Wynne S. Carvill
Steven L. Hock
John R. Foote
Thelen, Marrin, Johnson & Bridges
Two Embarcadero Center
San Francisco, California 94111
Telephone: (415) 392-6320

Attorneys for NEC Electronics Inc.
and NEC Corporation

United States District Court

Central District of California

No. CV-85-1344 CBM (Kx)

NEC Electronics Inc.,
Plaintiff,

vs

CAL Circuit ABCO, Inc., et al.,
Defendants.

And Related Counterclaim.

Declaration of Randy McCarty in Support of Motion for Preliminary Injunction and Partial Summary Judgment

Hearing Date: February 3, 1986

Time: 10:00 a.m.

Before: The Honorable Consuelo B. Marshall

I, Randy McCarty, declare:

1. For the past three years, I have been employed by Ciprico, Inc., now located at 2955 Xenium Lane, Plymouth, Minnesota. Ciprico manufactures a line of products which incorporate a variety of integrated circuits. Such integrated circuits are manufactured by companies in the United States and elsewhere in the world, particularly Japan. I am quite familiar with the various integrated circuits on the market, the uses made of them, the

purposes served and the function of such integrated circuits. During the first six months of my employment by Ciprico, I was engaged in quality control work. For the past approximately two-and-one-half years, I have been the purchasing agent for the company, charged with the responsibility of buying electronic parts including integrated circuits, which are specified by Ciprico's engineers for incorporation into products manufactured by Ciprico.

2. As purchasing agent for Ciprico, I have purchased literally hundreds of thousands of integrated circuits for incorporation into products manufactured by Ciprico. From the time I assumed my duties as purchasing agent for Ciprico, I knew of "NEC" integrated circuits and other electronic parts used in the manufacture of micro-computers. I knew that such integrated circuits and other electronic parts were manufactured by a company in Japan referred to as "NEC".

3. I became aware of integrated circuits and other electronic parts bearing the "NEC" trademark through my reading of various advertisements for those products, through the attendance at trade shows at which NEC products were featured and by general reputation in the industry. NEC products had the reputation of being of high quality, dependable, and readily available for purchase here in the United States. To my knowledge, integrated circuits bearing the NEC trademark could be purchased through franchised authorized distributors of NEC throughout the United States. Further, I came to know both by word of mouth and my own personal experience that warranty service, technical information concerning product, quality of NEC product, field application engineering services and other services would be and were provided through franchised authorized distributors of NEC products.

4. I first began purchasing NEC trademarked integrated circuits in January or February of 1983. I was aware that Marshall Industries was a franchised authorized distributor of NEC products in Minnesota and that George Russell was a manufacturers representative of NEC Electronics, Inc. I made my first purchases of NEC integrated circuits through Marshall Industries and have brought NEC products from Marshall Industries since

those initial purchases and down to the present time. In my dealings with Marshall Industries and with George Russell who served as liaison with NEC, I became generally familiar with the distribution network for NEC product in the United States because, when Marshall Industries did not have NEC product available to meet my purchasing needs, they would refer me to other franchised authorized distributors of NEC in other locations.

5. Near the beginning of a so-called "allocation period" in March or April 1983, Marshall Industries was unable to supply me with the types and quantities of NEC integrated circuits required by Ciprico. Accordingly, I began to inquire with respect to other sources of supply for these parts. Tom Bouchard of CAL ABCO had sent me a CAL ABCO line card which described that company as "your direct source" and indicated that its business was "electronic components distribution". NEC was one of several Japanese original equipment manufacturers listed on that line card as a manufacturer whose products were available through CAL ABCO. I did not know if CAL ABCO was a franchised authorized distributor for NEC products, so I asked Bouchard whether it was. At first he responded by saying that CAL ABCO was in continuing negotiations with manufacturers in seeking to obtain a franchise for the products displayed on CAL ABCO's line card. However, when I asked him point blank whether CAL ABCO was a franchised authorized distributor for NEC products, he stated "No".

6. While I wanted to purchase NEC products from a franchised authorized dealer for those products, Ciprico needed NEC product from whatever source since it was essential that its production lines be kept running. Accordingly, during the allocation period, I placed very substantial orders for NEC product through Mr. Bouchard and a Ms. LaFranz, another CAL ABCO sales representative. On my purchases of NEC products during the allocation period, CAL ABCO quoted prices which were 400% to 700% higher than Marshall Industries' list prices for the same products. Since the ending of the allocation period, CAL ABCO quotes prices on NEC products which are approximately

35% lower than the prices quoted for the same products by Marshall Industries.

7. After the allocation period ended, I informed Mr. Bouchard that I would no longer be purchasing NEC product from CAL ABCO but would, instead, purchase only from franchised authorized distributors of NEC product. Shortly thereafter, in November 1984, Pam Woodrin and Dawn Fox of CAL ABCO came from California to Minnesota and met with me. They stated CAL ABCO could sell NEC products to Ciprico at prices substantially cheaper than those quoted by NEC's franchised authorized distributors. They emphasized that CAL ABCO had supplied NEC products when its own franchised authorized distributors could not. They stated that CAL ABCO had supplied Ciprico with much needed NEC integrated circuits during the "allocation period" and that Ciprico, in return, should continue to buy NEC products from CAL ABCO. Notwithstanding that, Ciprico continues with its policy to buy integrated circuits only from franchised authorized distributors for the manufacturers of those integrated circuits are specified by its engineers for incorporation in Ciprico's products. For my part, I have continued to purchase integrated circuits only from the franchised authorized distributors whose products are specified by Ciprico's engineers.

8. From my standpoint, the only real need or service provided by CAL ABCO during the allocation period was its ability to supply integrated circuits when they were not available from franchised authorized distributors. I believe that CAL ABCO stands behind its "money back guaranty". However, the failure rate of integrated circuits such as those bearing the NEC trademark is so low that it is inconsequential. More than that, if the failure rate of such integrated circuits became unacceptably high or if there should be catastrophic failures of such a part, my company and I would look to the original equipment manufacturer of such integrated circuits for assistance and even compensation in determining the problem or correcting it. I know from my own experience that NEC field application engineers are available and their services can be obtained simply by contacting the franchised authorized distributor, such as Marshall Industries.

CAL ABCO, on the other hand, did not have such services available during the time which I purchased NEC integrated circuits from it. More than that, if Ciprico encountered problems with integrated circuits bearing the NEC trademark, I would have no hestitancy in looking to NEC and its franchised authorized distributors to correct any problem and to make compensation if warranted, so long as Ciprico had legally acquired the integrated circuit bearing the NEC trademark. If NEC failed to do this, it would be taken off Ciprico's approved vendors list and would not thereafter be able to sell its products to Ciprico.

9. In purchasing NEC integrated circuits from CAL ABCO, I relied entirely upon the NEC trademark, the reputation for high quality of products bearing that trademark, and the fact that the product was qualified and specified by Ciprico's engineers. To put it differently, I would not have purchased integrated circuits from CAL ABCO if they carried only comparable integrated circuits made by manufacturers whose products had not previously been qualified and specified by Ciprico engineers. To qualify an integrated circuit of a given manufacturer in order that it may be specified for incorporation into products manufactured by Ciprico, requires that Ciprico's engineers spend a good deal of time and a significant amount of money to inspect, test, and do all the things necessary to satisfy themselves that the part in question will function properly in all respects, is durable and will do all the things necessary when incorporated in the product for which it is being considered. Because of the outlay in time and money required to qualify such a part, such qualification will not be undertaken unless the integrated circuit has some unique technological function or there is either no other source or but a single other source of supply for such a part. Such was not the case with NEC products purchased from CAL ABCO during the allocation period. The NEC parts purchased had no unique technological feature; further, other well established Japanese manufacturers, such as Fujitsu and Hitachi, manufactured comparable integrated circuits which had been tested and qualified by other manufacturers in the United States. Had CAL ABCO offered ostensibly comparable integrated circuits produced by manufacturers other than those well-known manufacturers listed on its line card, I would not have undertaken to purchase any such other integrated

circuits from CAL ABCO. In my view, NEC and other established manufacturers listed in CAL ABCO's line card had "made the market" for integrated circuits by virtue of their advertising, their dissemination of technical product literature, participation in trade shows, conduct of seminars, and providing necessary services such as field application engineering to manufacturers in the United States buying and using their products. So far as I am aware, CAL ABCO did not do any of such "leg work". Rather, it simply purchased and resold products whose manufacturers had developed the use and need for such products within the electronic industry and who continued to provide warranty and other customer services as well as information necessary for their effective use.

10. If I were called as a witness, I would and could testify competently under oath to the facts herein set forth, which are of my personal knowledge, unless stated upon information and belief.

I declare under penalty of perjury under the laws of the United States of America, that the foregoing is true and correct.

Dated: August 13, 1985

/s/ RANDY McCARTY
Randy McCarty